



Economic and Social Council

Distr.
GENERAL

E/C.10/1994/5
23 March 1994

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Twentieth session
Geneva, 2-11 May 1994
Item 6 of the provisional agenda*

**COUNTRY AND REGIONAL EXPERIENCES IN ATTRACTING FOREIGN DIRECT
INVESTMENT FOR DEVELOPMENT**

Foreign direct investment in Africa

Report by the UNCTAD secretariat

SUMMARY

African countries are keenly interested in attracting foreign direct investment. After a relatively good performance in the second half of the 1980s, however, the region as a whole did not benefit from the increasing flows of foreign direct investment to developing countries during the early 1990s: the continent's share in these flows declined from 12 per cent during 1986-1990 to 7 per cent during 1991-1992. Thus, while other regions of developing countries are increasingly relying on private investment capital in their external resources inflows, grants and official loans continue to be the principal source of such inflows to Africa. Still, African countries are making every effort, especially through the liberalization of FDI policies, to attract transnational corporations to all sectors of their economies. In fact, a number of countries have succeeded in attracting either relatively sizeable or growing flows, or both, either consistently over the years or in particular years. Their success demonstrates that it is wrong to assume that Africa as a whole is an inhospitable FDI location. Rather, differentiating analyses are required to determine the specific locational advantages of individual countries that are prepared to create a favourable investment climate.

* E/C.10/1994/1.

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INTRODUCTION

1. The Economic and Social Council, in its resolution 1993/49, requested the Secretary-General to prepare, for the twentieth session of the Commission on Transnational Corporations, an analytical and comparative report on the role of foreign direct investment (FDI) in Africa. The present report has been prepared by the Programme on Transnational Corporations in response to that request.

2. African countries are keenly interested in receiving FDI. For that purpose, they have improved, typically within structural adjustment programmes, their regulatory frameworks. In addition, they try to increase investor confidence through the conclusion of bilateral investment and tax agreements and membership in the Multilateral Investment Guarantee Agency. These changes in the regulatory framework are examined in section I. The analysis of trends in section II shows, however, that, for the continent as a whole, the FDI flows have not responded or, at best, have responded unevenly, concentrating either on the primary sector or a few small countries, or both. The reasons for this performance are discussed in greater detail in section III dealing with basic factors determining FDI flows. Although FDI in Africa has not been large (with a number of relative exceptions), whatever there has been has exerted an important impact on the economies of the host countries (sect. IV). Finally, in order to create an environment conducive to attracting foreign investment and enhancing its impact, it is not sufficient to deal just with the basic legal framework; rather, much more can and should be done, as discussed in the concluding section. While some of the necessary further improvements can be made only in the long term and, especially in case of the least developed countries, require considerable external assistance (e.g., in the area of infrastructure), others are under the control of Governments and can be dealt with in the short term.

I. THE REGULATORY FRAMEWORK

A. The national regulatory framework

3. Most African countries have now adopted national regulatory frameworks conducive to FDI. They permit profit repatriation and provide tax and other incentives to attract such investment. In addition, efforts to increase FDI inflows have included the simplification of the investment approval process (e.g., by setting up "one-stop" investment centres), the establishment of investment-promotion institutions and the increased use of representative offices abroad to publicize investment opportunities. The reformist mood has been widespread and, at times, has exhibited itself in quite rapid policy and legislative changes. For instance, in just one five-year period alone (between 1982 and 1987), about one half of all African countries either introduced or made adjustments to their investment codes or guidelines in order to attract more FDI. The end of the 1980s and the start of the 1990s also saw many other countries among the other half introduce new investment laws or amend the old ones. In addition, countries with a previous reputation of hostility to FDI, such as Ethiopia, Guinea and Mozambique, introduced new legislation offering a wide range of guarantees and opportunities for foreign investors. But even

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countries that have traditionally been regarded as being more open to FDI, such as Kenya and Zimbabwe, also went out of their way to revise their regulatory frameworks to be more attractive.

4. While the liberalization of FDI policies has cut across virtually the whole of Africa, the approach taken to specific issues still varies among the countries in the region, as do the administrative practices with which they are implemented. Thus, some countries still maintain mechanisms seeking to protect domestic enterprises from foreign competition in order to encourage local industrial development. Some put emphasis on the encouragement of joint ventures with local partners while others are rather ambivalent about the issue. In addition, for a number of countries the objectives of FDI legislation remain the growth of specific industries, the transfer of technology and the promotion of exports, while other countries have broader objectives.

5. In spite of the different ways in which individual countries approach such specifics, a review of a sample of African investment codes shows that most of them address the full spectrum of issues that are important to a potential investor - from entry requirements and operational conditions to incentives and legal protection and guarantees. In all these areas, some general trends towards the liberalization of previous restrictions are discernible. The major ones are discussed in the following sections.

1. Ownership and entry restrictions

6. A common feature of FDI laws in force in Africa during the 1960s and 1970s were the provisions limiting FDI in any enterprise to no more than a specified percentage of the equity. These restrictions on foreign ownership have been substantially lifted in recent years and most African countries have revised their laws to remove or reduce such ownership limitations.

7. Many countries nevertheless still restrict FDI in certain key industries - either totally or up to a certain equity percentage. But even in such cases, the number of industries closed to foreign ownership has gradually been reduced as the liberalization process took hold. Ghana's Investment Code (No. 116 of 1 July 1985), for example, reduced the number of industries closed to FDI from 24 to 2. Other countries with similar restrictions, such as the Central African Republic, Guinea and Nigeria, opened up industries hitherto closed to foreign investors. A key case was that of Nigeria, one of the largest economies of Africa. There, the Indigenization Decrees of 1972 and 1977 had restricted FDI to not more than 40 per cent of the equity of an enterprise in many industries. In January 1989, these laws were changed so that foreigners could be the sole investors in all enterprises with the exception of banking, insurance, petroleum processing and mining. 1/

8. Restrictions on 100 per cent foreign ownership had been accompanied by the promotion and proliferation of joint ventures as a principal form of doing business in Africa. In the 1960s and 1970s, many Governments in Africa were very active in promoting joint ventures between national entities, including parastatals, and TNCs. In such joint ventures, the national entity would, often by law, have to hold at least 51 per cent of the equity. The emphasis on joint

ventures has now been largely abandoned. But while Governments are no longer keen to enter into business themselves, the regulatory framework in some countries indicates an inclination to continue the encouragement of joint ventures with private local investors. However, a major difference between the old laws and the new ones is that the new laws do not mandatorily require the formation of such joint ventures. They only encourage them. For example, the 1990 Foreign Investment Act of Namibia and the 1991 Investment Proclamation of Eritrea both clearly encourage joint ventures with local investors but emphasize that this is not an obligation to be imposed on foreign investors.

9. State disengagement from economic activities brought issues of FDI involvement in the privatization process. Some countries, such as Chad, Morocco, Mozambique, Nigeria, the Sudan and Uganda, have embarked on the outright sale of loss-making public enterprises, while others, such as Egypt, Ethiopia, Morocco and Tunisia, have chosen to follow a very cautious and gradualist approach to privatization and the reform of parastatals. A recurring theme in many countries with regard to privatization is how to address the cases of those firms with outstanding debts owed to foreign concerns, as well as how to secure indigenous ownership of assets in a situation characterized by a fairly narrow capital base in the private sector. Some countries, such as the Sudan, plan to tackle this issue by turning some of the affected enterprises into public limited liability companies with mixed share holdings.

10. Notwithstanding the liberalization of FDI regimes - at least in terms of removing foreign ownership limitations - most countries still maintain a requirement that the Government must approve the establishment of any FDI project. In other words, they have in place a "screen-and-approval" process for foreign investors. Thus, if a proposed investment does not qualify under some criteria stated in the investment code, it will not be approved and cannot be made. But some countries are recently adopting more open regimes. In some cases, such as Namibia, there is no approval process, and national treatment is assured under the law (box 1). In others, such as Mozambique and Eritrea, there is no specific requirement for FDI approval, but foreign investors go through an approval process anyway to obtain wide-ranging tax concessions.

11. There has, however, been increasing recognition of the need to reduce the bureaucratic overload that usually attends a screen-and-approval process. Thus, extensive efforts at simplifying approval procedures have taken place in many countries. In that regard, numerous African countries set up "one-stop investment shops" during the 1980s (e.g., the National Investment Board of Gambia, the Ghana Investment Centre, the Investment Promotion Centre of Kenya, the National Investment Commission of Liberia, the Nigerian Investment Promotion Centre and the National Investments Promotion Office of Zaire). A major function of all of them was to provide a "one-stop" approval facility within the government bureaucracy. The purpose was to eliminate as much as possible time delays associated with an approval process that depends on the operation of different government departments. In reality, however, many of them did not really facilitate the investment process as increased workload turned them into bottlenecks. Many countries are now reorganizing these agencies to focus more on promotional activities, as they reduce screening and approval requirements.

12. A general review of FDI entry procedures would not be sufficient without reference to the relevant sectoral laws that also impinge on the approval process. For example, in all African countries, minerals and petroleum in the ground are the property of the State and no one can prospect, mine or produce them without a license. Besides the basic requirements of the FDI legislation, the mining and petroleum laws of these countries therefore had extra built-in approval procedures that could, if not reviewed, in some instances defeat the purpose of new FDI laws.

13. Not surprisingly, the 1980s saw an extensive review of sectoral policies and the relevant regulatory framework, especially in the natural resources sector, so as to bring them in line with the general trend of FDI policy liberalization. New or revised legislation governing mining and petroleum exploration were, for example, enacted in Burundi, Ghana, Kenya, Nigeria, the Sudan, Uganda, the United Republic of Tanzania and Zambia. One of the main trends of these new laws was to move away from a mandatory requirement that Government must have equity (often in the majority) in mineral ventures. The new policy reflected in these laws is that adequate public interest controls can be achieved by the Government in its capacity as regulator, and that well-designed tax arrangements can achieve an adequate revenue share to Government without the expense and risks of ownership participation.

2. Foreign exchange controls on the remittance of investment-related flows

14. Many African countries suffered from severe foreign exchange shortages during the 1970s and 1980s and thus imposed restrictions regarding capital outflows including profit remittances. Many still have these shortages. In those countries that use the Franc CFA currency, remittance was not a problem in principle since convertibility with the French franc at a fixed rate was automatic. But since 1990, restrictions operating within the banking system of the CFA countries have effectively reduced the automaticity of transfers even in those countries. Over the years, many Governments recognized that their foreign exchange control laws were a strong disincentive to foreign investors. The solution then adopted in many countries was to guarantee foreign investors a right to repatriate their capital and profits, thus exempting them from the otherwise restrictive foreign exchange regime.

Box 1. Breaking new ground: Namibia's open policy regime

The starting-point under Namibia's foreign investment law is that all FDI, without a process of prior approval, is welcomed. Foreign investors receive national treatment. They enjoy the same rights and are subject to the same obligations as a national engaged in similar activity. Instead of providing specific concessions for FDI, Namibia encourages all investment including FDI by taxing all investors at a relatively low level compared to other countries.

The Government chose not to follow the practice in some other developing countries providing special fiscal incentives such as tax holidays, import duty concessions and the like. The reasons stated in the Government's policy paper are as follows:

- in order to create stable conditions for economic growth, Namibia needs a broad revenue base which is not continuously eroded by piecemeal concessions;
- tax concessions could be wasteful since, in many cases, if other conditions are satisfactory, tax concessions will not be required to attract FDI;
- double taxation treaties, and the unilateral double taxation relief offered by many capital exporting countries, mean that the practical effort of tax holidays is often uncertain.

Nevertheless the Government recognizes that national treatment may not always be sufficient to attract foreign investors interested in major projects. The Government offers special guarantees for specified types of investments and the guarantees which focus on two principal concerns of large investors: security of title; and guarantees about the availability of foreign exchange to meet essential investor requirements. (An investor who opts to apply for these incentives has, of course, to undergo some form of approval process.)

In the case of concerns related to security of title, the Code provides that, in the event of expropriation, just compensation would be paid without undue delay; and disputes between investors and the State about compensation could, subject to the guidelines provided under the law, be referred to international arbitration. In the case of foreign exchange transactions, the Code sets out undertakings to ensure that foreign exchange will be freely available.

15. However, formal legislative restrictions have seldom been the key problem in relation to the repatriation of earnings. The most effective constraints on the repatriation of dividends and capital by the early 1980s were the foreign exchange "queues" which existed in most African countries. This was an arrangement by which central banks - facing balance-of-payments difficulties - allocated scarce foreign exchange to eligible companies. In practice this has meant that the foreign investor's right to remit profits can not always be implemented.

16. Only for firms (including foreign firms) that are exporters, the new legislative framework in many countries offers a more effective solution: foreign exchange retention schemes, that is, direct access to either all or a proportion of the value of their exports without having to first surrender it to the central bank. For example, Zambia's Investment Act of 1991 allows exporters to retain up to 70 per cent of export earnings in the initial years of investment and 50 per cent thereafter. Zimbabwe has a retention rate of 60 per cent for export earnings. 2/

17. An even more effective solution to this problem has been the introduction of liberalized currency markets as part of structural adjustment programmes. They have generally made it easier than before for TNCs to repatriate earnings. Though freeing exchange rates within the new regimes has increased the cost of foreign exchange, it has at the same time improved its accessibility and reduced delays associated with the central banks' queues. A number of countries (including Ghana, Uganda, the United Republic of Tanzania and Zambia) have adopted a free market in foreign exchange - commonly referred to as forex bureaux - in which transactions are not controlled by central banks. 3/

3. Transfer of technology and intellectual property rights

18. In the past, a number of African countries required all technology-transfer agreements to be approved by the Government. The practice today is much more flexible. In many cases, only broad criteria are indicated for the approval of technology-transfer agreements. Agreements that comply with these criteria are generally approved, and intervention is only invoked in exceptional circumstances (box 2).

19. The recent revisions of investment codes have not always addressed issues related to the tax regime affecting fees that may accrue from the transfer of technology agreements, as well as issues concerning the use of patents and intellectual property rights. Where they have been addressed, it has not always been done adequately so as to encourage the sale of technology or the provision of management expertise.

Box 2. Transfer-of-technology regimes in Africa

In dealing with the transfer of technology, African countries have adopted two main approaches. The first approach consists of the enactment of specific legislation dealing with the transfer and development of technology. The Nigerian legislation (Decree No. 70 of 1979) is a good illustration of this approach. The scope of application of the decree is rather broad, compared to the scope of application of the laws of other developing countries. The decree requires registration with the National Office of Industrial Property of all new and old technology agreements concluded by Nigerian companies with foreign enterprises. Specifically, the following categories of contractual agreements are subject to registration: the use of trade-mark; the right to use patented inventions; the supply of technical expertise in the form of plans, diagrams, operating manuals or any other forms of technical assistance; the supply of basic or detailed engineering; the supply of machinery and plant; and the provision of operating staff or managerial assistance and the training of personnel. Between 1979 and 1992, over 1,030 technology agreements were registered with the National Office of Technology Acquisition and Promotion.

The second approach involves the incorporation of special provisions relating to the transfer and development of technology in investment codes. Uganda is an example. The country's Investment Code 1991 established the Investment Authority as a central agency to promote, facilitate and monitor investment in the country. The Authority is designed to provide "one-stop" services to investors and is empowered to issue investment licenses, certificates of incentives and certificates of registration of agreements for transfer of foreign technology or expertise. Incentives are given to investors who contribute towards three or more of the Investment Code's objectives, such as net earnings or savings concerning foreign exchange; the utilization of local materials, supplies and services; creation of employment; promotion of regional development; and introduction of advanced technology or upgrading of indigenous technology. The Code provides for the beneficiaries to register agreements for transfer of technology or expertise with the Authority. It spells out conditions that must be contained in every agreement for the transfer of foreign technology. Each agreement must provide for technical assistance in connection with marketing programmes and purchase of equipment involving the use of technology or expertise; training of personnel; assurance of continued use of the acquired technology; and supply of spare parts and raw materials for a period of up to five years following the termination of the agreement. In case of payment of royalties, the fee charged should be reasonable and payment of such royalties should cease upon the termination of the agreement or if the technology becomes public knowledge other than through the fault of the licensee. The Code prohibits the inclusion of certain conditions in a technology agreement. These include conditions that restrict the use of other competitive techniques; restrict the manner of sale of products or exports; limit the ways in which any patent or other know-how may be used; or restrict the source of supply of inputs. The authority may exempt an investor from any of the provisions concerning conditions in the technology transfer agreements.

In some countries, the legislation of investment refers only to "technological inputs". For example, the 1987 Investment Code of Burundi defines the guarantees given for investment in Burundi, the associated rights and obligations and the various regimes under which investments may be made. Four regimes are envisaged to that end: the regime of the ordinary law, the approved priority activity, the officially agreed enterprise and the decentralized enterprise. The criteria that distinguish one regime from another are based, *inter alia*, on technological contributions to the country. For example, to obtain the status of a priority enterprise, the undertaking has to satisfy nine conditions including adequate technical guarantees and the dissemination and development of technology.

Source: Based on work of the UNCTAD Programme on Technology.

20. In the area of the protection of intellectual property rights, more than 30 African countries are members of the Paris Convention (table 2) and more than 20 are parties to the Berne Convention for the Protection of Literary and Artistic Works. In addition, two major regional organizations deal with intellectual property matters: the Organisation africaine pour la propriété intellectuelle (OAPI) and the African Regional Industrial Property Organization (ARIPO). The OAPI member countries have adopted a uniform system of protection whereby intellectual property-rights titles are granted on their behalf by the Organization.

21. In addition, most countries provide for the protection of patents, trademarks and copyrights under national legislation. In the field of copyright, African legislation is generally based on the 1971 Paris text of the Berne Convention. However, most African countries have no specific legislation on computer software nor do they protect it under their copyright legislation. As regards the term of protection for patents, some of the African countries grant 20 years from the date of application, while in others the duration of protection is shorter - 10 or 15 years - but it may be extended. In the case of the OAPI countries, the extension is granted only if the invention is being worked in the territory of a member State or if there are legitimate reasons for non-working.

22. Some of the patent laws of African countries do not contain any provision on compulsory licences. This is the case, for example, for Botswana, Burundi, Liberia, Mauritius, Morocco, Rwanda, Sierra Leone, Tunisia and Zaire. For most of them, both the grounds for granting such licenses and the time-frame within which they may be granted are explicitly based on Article 5A of the Paris Convention. In a number of countries (Sudan and the OAPI member States), compulsory licences may be granted on the grounds of public interest, while in some others (e.g., Algeria, Malawi, Nigeria, Zimbabwe) the law provides for the endorsement of a patent for licences of right. Provisions also exist in a number of African countries for the use of patented inventions by the Government for the services of the State, or in the public interest. However, the Egyptian

legislation provides for an expropriation of a patent by the State on the grounds of public interest or national defence, while in Zaire, use by Government or for the public interest may be conclusive. Future trends in the area of the protection of intellectual property rights in Africa will most likely follow the evolution of legal changes, as reflected in the agreement on trade-related intellectual property rights contained in the Final Act of the Uruguay Round of Multilateral Trade Negotiations.

4. Fiscal incentives and other promotion measures

23. A major thrust of the FDI policies of the 1980s was the provision of fiscal incentives to foreign investors. This applied practically across the whole region with respect to corporation taxes and import and export duties. A specific concession on the rate of the corporation tax for periods of, in most countries, up to 5 or even 10 years is widely available. In some cases, incentives are negotiable. In the United Republic of Tanzania, the Investment Promotion Act of 1990 provides for foreign investors to negotiate tax concessions individually with the Investment Promotion Centre. In Zaire, under the Investments Ordinance of 1986, concessions on very large investments are negotiated separately with the Government.

24. It is in the area of fiscal concessions that different priorities concerning FDI in African countries become most discernible. Eligibility for tax and duty concessions is usually determined by the degree of priority that a particular Government attaches to the type of investment or the industry in which it will be made. These priorities differ in the region. For example, Egypt provides a tax holiday of up to 15 years for projects deemed to be in the public interest, such as low-cost housing. Senegal and Côte d'Ivoire put particular emphasis on small- and medium-sized enterprises. Guinea and Kenya give special incentives to those who invest in the lesser developed regions. Lesotho encourages labour intensive manufacturing, while Guinea provides incentives to TNCs that make use of and develop local resources. In most countries, export industries almost invariably fall into the priority categories. Agro-processing is also a common priority sector under the investment laws of many African countries. 4/

25. Besides tax and duty concessions, many African countries have tried to attract TNCs through generous incentives given to foreign affiliates established in export-processing zones. Incentives often include exemptions from import and excise duties as well as from income tax; free repatriation of capital and profits; investment and export finance at preferential rates; serviced industrial estates; favourable labour legislation; and guarantees against nationalization.

26. Mauritius and Tunisia are perhaps the best examples of African countries that have successfully established export-processing zones. 5/ The zones established in other countries such as Botswana, Cameroon, Egypt, Ghana, Kenya, Liberia, Madagascar, Morocco, Senegal, Togo and Zaire have had rather limited success. For example, in the case of Senegal - in spite of a very attractive package of fiscal incentives (including, in 1974, total exemption from import duties), all sorts of tax exemptions and the establishment of an efficient

infrastructure - only seven firms were in operation there by 1985. This and the experiences of a number of other African countries suggest that factors other than those operating within export-processing zones themselves can limit their incentive effects. Notwithstanding their limited success so far, such zones remain a popular policy option. Benin, Comoros, Eritrea, Malawi, Namibia, Nigeria, Rwanda and Zimbabwe are in the process of establishing such zones or are studying the possibility of doing so.

27. While most African countries continue to offer tax and other fiscal incentives to foreign investors as a way of attracting FDI, some have begun to re-examine their policies on incentives. The findings of a number of studies have shown that fiscal incentives provided in investment codes are on their own not enough to attract FDI if the general regulatory framework governing investors (such as company laws, banking and insurance laws and contract laws) - let alone the other factors determining FDI 6/ - is not conducive to doing business. There is a general trend in Africa, therefore, to re-examine the whole business-related regulatory framework so as to offer an investment climate that is all-encompassing. This is the case in Guinea, Malawi, Seychelles and Zambia, for example.

28. As part of the re-examination process of the fiscal incentives policies, an issue that is increasingly coming under scrutiny is the preferential treatment for foreign investors. Recent laws providing tax concessions and other fiscal incentives tend to put investment opportunities for both domestic and foreign enterprises on a similar footing. For example, in Congo, Guinea, Malawi and Zambia, the nationality of the firm is no longer a determinant of taking part in privileged fiscal incentives. 7/

29. Just as a number of African countries started reviewing their fiscal concessions, many also have adopted laws that give priority to increasing investor confidence. In particular, FDI codes are increasingly addressing issues related to security of title and, in most instances, provide for international arbitration as a form of dispute settlement.

B. The international regulatory framework

30. As part of their policy to improve their investment climate and attract FDI, many African countries have concluded bilateral investment protection treaties with capital exporting countries. By 1 January 1993, over 130 bilateral investment treaties had been signed by countries in the region. The overwhelming number of those treaties were with developed countries (table 1). Bilateral investment treaties typically prescribe general standards of treatment, including fair and equitable treatment, as well as national and most-favoured-nation treatment. In addition, they contain clauses dealing with specific aspects of investment relations such as the transfer of payments and the repatriation of capital and profits, losses due to armed conflict or international disorder, nationalization and expropriation and settlement of disputes. In addition, a number of African countries have concluded bilateral treaties for the avoidance of double taxation of income and capital. Members of the CFA zone have an automatic double taxation agreement with France.

Table 1. Bilateral investment treaties signed by African countries,
1 January 1993

Host country	Number on bilateral treaties					Investor country
	1960s	1970s	1980s	1990s	Total	
Cameroon	3		4		7	Belgium-Luxembourg, Germany, Netherlands, Romania, Switzerland, United Kingdom, United States
Cape Verde				1	1	Austria
Congo	3		1	1	5	France, Germany, Switzerland, United Kingdom, United States
Côte d'Ivoire	6				6	Denmark, Germany, Italy, Netherlands, Sweden, Switzerland
Egypt		13	3	1	17	Finland, France, Germany, Greece, Italy, Japan, Morocco, Netherlands, Romania, Sudan, Sweden, Switzerland, United Kingdom, United States, Yugoslavia, Ukraine
Ethiopia	1				1	Germany
Gabon	2	4			6	France, Germany, Italy, Morocco, Romania, Sweden
Ghana	1		4	1	6	China, Germany, Netherlands, Romania, Switzerland, United Kingdom
Kenya	1	1			2	Germany, Netherlands
Lesotho			2		2	Germany, United Kingdom
Liberia	2	1	1		4	Belgium-Luxembourg, France, Germany, Switzerland
Madagascar	5				5	Denmark, Germany, Norway, Switzerland, Sweden
Malawi	1				1	Denmark
Mali		2			2	Germany, Switzerland
Mauritania		1	2		3	Germany, France, United Kingdom
Morocco	2	4	7	4	17	Belgium-Luxembourg, Egypt, Gabon, Germany, France, Iraq, Italy, Kuwait, Netherlands, Romania, Portugal, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom, United States
Niger	1				1	Germany
Nigeria	2			3	5	France, Germany, Netherlands, Switzerland, United Kingdom
Rwanda	2		1		3	Belgium-Luxembourg, Germany, Switzerland
Senegal	3	2	3		8	France, Germany, Netherlands, Romania, Sweden, Switzerland, United Kingdom, United States
Sierra Leone	1		1		2	Germany, United Kingdom
Somalia			1		1	Germany

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Host country	Number on bilateral treaties					Investor country
	1960s	1970s	1980s	1990s	Total	
Sudan	1	5			6	Egypt, France, Germany, Netherlands, Romania, Switzerland,
Swaziland				1	1	Germany
Tunisia	5	2	3	1	11	Belgium-Luxembourg, France, Germany, Italy, Kuwait, Netherlands, Republic of Korea, Sweden, United Kingdom, United States
Uganda	1	2			3	Germany, Netherlands, Switzerland
United Republic of Tanzania	2	1			3	Germany, Netherlands, Switzerland
Zaire	1	3	1		5	Belgium-Luxembourg, France, Germany, Switzerland, United States
Zambia	1				1	Germany
Total	47	41	34	13	135	

Source: UNCTAD Programme on Transnational Corporations, World Investment Report 1993 (United Nations publication Sales No. E.93.II.A.14); UNCTC and ICC, Bilateral Investment Treaties 1959-1991 (United Nations publication, Sales No. E.92.II.A.10).

31. Bilateral treaties have been supplemented by multilateral treaties. Two particular important conventions (table 2) that are widely accepted in Africa are the International Convention on the Settlement of Investment Disputes between States and Nationals of other States (which provides a system for the resolution of investment disputes) and the Convention Establishing the Multilateral Investment Guarantee Agency (which guarantees foreign investors insurance coverage against such non-commercial risks as nationalization and losses owing to armed conflict or internal disorder). Adherence to the latter Convention is now regarded as a touchstone of Governments' willingness to cooperate actively with foreign investors, a fact seemingly recognized by an increasing number of African countries. Thus, by 1 January 1994, 33 African countries were full members of MIGA and 7 were in the process of becoming full members.

32. The majority of Governments in Africa have participated in the key forums for resolving investment disputes and for insuring investors against the risk of operating in unstable environments. The International Centre for Settlement of Investment Disputes (ICSID) has been one of the key centres for arbitrating investment disputes since its establishment in 1965. By 1 January 1994, 41 African countries were full members of ICSID, and a further 3 had signed the Convention, but their membership had not yet entered into force. Of the 44, 32 joined between 1965 and 1970.

33. Two other important conventions that have also had a reasonably wide level of acceptance are the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Paris Convention for the Protection of Industrial Property. The New York Convention adds a significant measure of reliability and protection in investment operations. The settlement of claims and disputes arising in foreign investment operations can become ineffective or unrealized if the relevant host or home countries refuse to recognize or enforce a claim, or if disparities in domestic conflict-of-law rules lead to the same result. By setting out rules for avoiding or minimizing such difficulties, the New York Convention has contributed to an improvement of the investment climate for FDI. As of 1 January 1994, 20 African countries had ratified the Convention (table 2). The Convention on the Protection of Industrial Property, which provides protection for patents and other intellectual property rights across national borders, is particularly significant for TNCs operating in high-technology areas since the technological assets they own typically constitute important firm-specific advantages. As of 1 January 1994, 37 African countries were parties to the Convention (table 2).

34. Although there are gaps in the participation by Governments from Africa in multilateral treaties, the extent of participation in international agreements relevant to flows of FDI suggests that the gaps that exist are not a key constraint on investment.

Table 2. African countries signatories of four major multilateral investment conventions, January 1994

Country	Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) (adopted in Washington on 11 October 1985)	Convention on the Settlement of Investment Disputes between States and Nationals of other States (adopted in Washington on 18 March 1965) <u>a/</u>	Convention on Recognition and Enforcement of Foreign Arbitral Awards (adopted in New York on 10 June 1958) <u>b/</u>	Convention for Protection of Industrial Property (adopted in Paris on 20 March 1883, last amended October 1979) <u>c/</u>
Algeria	--	--	1989	1966
Angola	Member <u>d/</u>	--	--	--
Benin	Signed <u>g/</u>	1966	1974	1967
Botswana	Member	1970	1971	--
Burkina Faso	Member	1966	1987	1963
Burundi	--	1969	--	1977
Cameroon	Member	1967	1988	1964
Cape Verde	Member	--	--	--
Central African Republic	--	1966	1962	1963
Chad	--	1966	--	1963
Comoros	--	1978	--	--
Congo	Member	1966	--	1963
Côte d'Ivoire	Member	1966	1991	1963
Egypt	Member	1972	1959	1951
Ethiopia	Member	1965	--	--
Equatorial Guinea	Ratified <u>f/</u>	1991	--	--
Gabon	--	1966	--	1964
Gambia	Member	1975	--	1992
Ghana	Member	1966	1968	1976
Guinea	Signed	1968	1991	1982
Guinea-Bissau	Signed	1991	--	1988
Kenya	Member	1967	--	1965
Lesotho	Member	1969	1989	1989
Liberia	--	1970	--	--
Libya	Member	--	--	1976

Country	Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) (adopted in Washington on 11 October 1985)	Convention on the Settlement of Investment Disputes between States and Nationals of other States (adopted in Washington on 18 March 1965) a/	Convention on Recognition and Enforcement of Foreign Arbitral Awards (adopted in New York on 10 June 1958) b/	Convention for Protection of Industrial Property (adopted in Paris on 20 March 1883, last amended October 1979) c/
Madagascar	Member	1966	1962	1963
Mali	Member	1978	--	1983
Malawi	Member	1966	--	--
Mauritania	Member	1966	--	1965
Mauritius	Member	1969	--	1976
Morocco	Member	1967	1959	1917
Namibia	Member	--	--	--
Niger	--	1966	1964	1964
Nigeria	Member	1966	1970	1963
Rwanda	Ratified	1979	--	1984
Senegal	Member	1967	--	1963
Seychelles	Signed	1978	--	--
Sierra Leone	Signed	1966	--	--
Somalia	--	1968	--	--
South Africa	--	--	1976	1947
Sudan	Member	1973	--	1984
Swaziland	Member	1971	1958	1991
Togo	Member	1967	--	1967
Tunisia	Member	1966	1967	1884
Uganda	Member	1966	1992	1965
United Republic of Tanzania	Member	1992	1964	1963
Zaire	Member	1970	--	1975
Zambia	Member	1970	--	1965
Zimbabwe	Member	1991	--	1980

(Source and footnotes on following page)

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(Source and footnotes to table 2)

Source: UNCTAD Programme on Transnational Corporations, based on various sources.

- a/ Year of signature.
- b/ Year of ratification.
- c/ Year in which State became party to the Convention.
- d/ Effective membership, when subscription is paid.
- e/ A representative of the country has signed the Convention.
- f/ Record of membership, when the Convention is ratified by Parliament.

II. TRENDS IN FOREIGN DIRECT INVESTMENT IN AFRICA

A. Inflows

35. The total value of FDI flows to Africa nearly doubled from an annual average of \$1.7 billion during 1981-1985 to an average of almost \$3 billion during 1986-1990. In the early 1990s, flows to Africa remained at that level (table 3), in spite of a downturn in world-wide investment flows, but also in spite of a continued upturn in flows to the developing countries as a group.

36. The increase of flows to Africa in the second half of the 1980s did not give rise to much optimism concerning the prospects of FDI in this region, not only because they were concentrated in a few countries and stagnated in the early 1990s, but also because they were quite modest when compared to FDI flows to other regions of the developing world. As a result, average annual FDI flows to Africa as a proportion of these flows declined between the first and the second half of the 1980s from 13 per cent to 12 per cent (table 3). During the early 1990s, when inflows to Africa ceased to grow while those to other developing countries continued to do so, Africa's share declined further to the level of 7 per cent, thus underlining the marginalization of the continent in relation to FDI flows, apart from its marginalization in relation to international trade. 8/

37. Weak FDI flows to Africa and an almost total absence of portfolio equity investment flows during the early 1990s (when both types of these flows to other groups of developing countries were growing) distinguish Africa unfavourably from other regions in terms of the structure of external financial flows. In both Asia and Latin America and, as a result, in all developing countries as a group, FDI has risen to the largest component of net resources inflows; in fact, private capital flows have become larger for them, for the first time in a decade, than official flows. 9/ Africa, on the other hand, and especially sub-Saharan Africa, continues to rely on grants and official loans, which constitute the bulk of its resources inflows, while FDI - the only meaningful type of private flows to sub-Saharan Africa - accounts for some 12 per cent of the total. 10/

38. Investment flows to Africa as a whole were concentrated in, and therefore largely determined by, flows to the continent's nine oil-exporting countries. These alone accounted for over four fifths of the flows to Africa during the first half of the 1980s. Later, their share declined but remained at the high level of 70 per cent at the beginning of the 1990s. Within the group of oil-exporting countries, inflows are concentrated on Egypt and Nigeria, which together absorbed, depending on the year, between 36 per cent (in 1991) and 84 per cent (in 1981) of the total flows to Africa, or between, respectively, 53 per cent and over 90 per cent of those to the oil-exporting countries (table 3). If there is any trend within this group, it is towards a relative decline of the importance of these two countries, based on annual average flows, from 65 per cent in the first half of the 1980s to 41 per cent in the early 1990s. This decline was caused by a reduction of inflows to Egypt in the aftermath of the Gulf War by more than a half between the two periods, and a recovery of flows to Angola, Libya and Tunisia during the early 1990s (annex

Table 3. Inflows of foreign direct investment to Africa, 1981-1992
(billions of dollars and per cent)

Region/country	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	Annual averages		
													Total	1981-1992	1981-1992
All countries	57.6	43.2	43.5	50.1	53.5	80.5	133.4	157.8	195.0	205.3	161.6	151.9	1 333.4	49.6	154.3
Developing countries	15.1	14.3	10.4	12.1	13.5	13.9	23.9	27.8	27.4	31.7	39.4	46.8	276.3	13.1	24.9
Africa	1.6	1.4	1.2	1.4	2.0	1.8	2.5	2.8	4.9	2.3	2.7	3.0	28.4	1.7	2.9
Africa's share in (per cent):															
All countries	2.8	3.2	2.8	2.8	5.2	2.2	1.9	1.8	2.5	1.1	1.6	1.9	2.1	3.4	1.9
Developing countries	10.6	9.8	11.5	11.6	20.7	12.9	10.5	10.1	17.9	7.3	6.8	6.4	10.3	12.8	11.4
Oil-exporting countries of Africa, a/ b/ (million dollars)	1.1 g/	1.0	1.2	1.1	2.5	1.7	1.8	2.1	3.5	1.2 g/	1.8	2.2	21.2	1.4	2.1
(Egypt)	0.8	0.3	0.5	0.7	1.2	1.2	0.9	1.2	1.1	0.7	0.3	0.5	9.6	0.7	1.1
(Nigeria)	0.5	0.4	0.3	0.2	0.5	0.2	0.6	0.4	1.9	0.6	0.7	0.9	7.2	0.4	0.8
Other non-oil exporting countries of Africa b/	0.4	0.4	0.02	0.3	0.3	0.2	0.7	0.7 d/	1.4 d/	1.0 d/	0.9	0.9	7.2	0.3	0.8
Share in Africa's total g/ (per cent):															
Oil-exporting countries	79.9g/	70.6	98.4	81.0	89.8	91.6	72.3	74.9	72.0	54.4 g/	67.2	71.2	74.6	82.3	72.4
(Egypt)	48.6	20.4	40.9	51.2	42.2	67.1	37.8	42.9	25.6	32.2	9.4	15.1	33.8	41.2	37.9
(Nigeria)	35.2	30.1	28.8	14.0	17.1	9.2	24.0	13.6	38.5	25.8	26.4	29.6	25.4	23.5	24.1
Other countries	27.1	29.3	1.6	19.0	10.2	8.4	25.5	25.9	28.0	45.6	33.8	28.8	25.4	17.6	27.6

Source: UNCTAD Programme on Transnational Corporations, based on IMF tapes, December 1993.

(Footnotes on following page)

(Footnotes to table 3)

a/ Algeria, Angola, Cameroon, Congo, Egypt, Gabon, Libya, Nigeria and Tunisia.

b/ Figures may not add up to Africa's total because of rounding.

c/ Africa's total is less than the total for Egypt and Nigeria because it includes disinvestment in other countries.

d/ Figures are inflated by unusually high investment in Liberia in 1988-1990 (\$290, \$656, \$276 million, respectively), most likely in flags-of-convenience facilities. Inflows to "other Africa" net of Liberia were as follows: 1988 - \$404 million; 1989 - \$712 million; 1990 - \$762 million.

e/ Percentages based on the figures before rounding.

table 1). However, as discussed below, not all - and in some cases not even the majority - of FDI in these countries is undertaken in the petroleum industry. While 1991 investment flows to Angola, which exceeded \$600 million, went mostly to petroleum exploration and mining, ^{11/} the majority of those to Nigeria went, based on the number of approvals, to manufacturing (annually between 52 and 63 per cent of the number of projects during 1989-1991). ^{12/} While oil reserves in and by themselves can attract foreign investors, they may also help create conditions conducive to a diversification of FDI into other sectors and industries by, for example, securing a relatively stable foreign currency income that can be used as a guarantee for the free transfer of income on FDI - no doubt a strong incentive to foreign investors, especially under the conditions prevailing in Africa, where most countries struggle with balance-of-payments difficulties. As the recent example of Nigeria shows, however, the link between oil and such a guarantee does not have to be automatic. To improve access of the private sector, including foreign investors, to foreign currency, Nigeria liberalized its foreign exchange controls in early 1992 by, among other things, letting the local currency float and limiting the role of the Central Bank to open market operations. Facing, however, dwindling reserves soon after that, Nigeria reinstated the role of the Central Bank in early 1993 and tightened foreign exchange regulations. ^{13/}

39. Investment flows to Africa are still so small in size that they are easily subject to year-to-year fluctuations in response to substantial changes in flows to a few countries. But the peak that FDI flows to Africa reached in 1989 - nearly \$5 billion, or 18 per cent of total flows to developing countries - indicates that Africa benefitted at least to some degree from the worldwide FDI boom during the second half of the 1980s. However, 90 per cent of the \$2.1 billion increase of Africa's total over the preceding year were concentrated on two countries, Nigeria and Liberia; flows to them registered in 1989 historic highs, not repeated after that year. The peak of the first half of the 1980s, which fell in 1985, was caused by a sudden one-year increase of flows to five oil-exporting countries (table 3).

40. The concentration of FDI in Africa on oil-exporting countries should not disguise the fact that some of the smaller non-oil exporting countries have attracted relatively significant and/or growing amounts of FDI during the 1980s and early 1990s (Botswana, Côte d'Ivoire, Morocco, Namibia, Swaziland and Zambia fared particularly well during the 1980s and early 1990s, see table 4). The CFA zone did not reap significant advantages despite its favourable monetary arrangements: inward FDI fell from an average \$345 million during 1981-1985 to \$190 million during 1986-1990 and \$34 million during 1991-1992, while investment in the non-oil-exporting countries as a group increased nearly three times (from \$283 million in 1981-1985 to \$790 million in 1986-1990). At the beginning of the 1990s, the latter remained at the level of \$880 millions annually. Table 4 shows, in addition to the ranking of the largest host countries in Africa by the absolute size of FDI inflows, rankings by relative size of inflows (per capita and per unit of GDP) and by increases of inflows (between the second half of the 1980s and the early 1990s and during the 1980s).

41. The ranking of countries by the absolute size of inflows produces an expected outcome: during the early 1990s, five out of the six largest host

Table 4. The largest host countries to foreign-direct-investment inflows in Africa, various measures

(dollars and per cent)

Size of inflows a/ (millions of dollars)	Inflows per capita b/ (dollars)	Inflows per \$1,000 of GDP c/ (dollars)	Increase in inflows early 1990s d/ e/ (percent)	Increase in inflows during 1980s g/ h/ (percent)
Nigeria 804	Seychelles 301	Equatorial Guinea 207	Equatorial Guinea 791	Liberia 1 097
Angola 476	Equatorial Guinea 89	Seychelles 65	Senegal 643 g/	Mozambique 1 027
Morocco 372	Swaziland 60	Swaziland 64	Libya 638	Mauritius 639
Egypt 356	Namibia 57	Angola 61	Angola 582	Swaziland 618
Tunisia 252	Angola 52	Namibia 40	Mozambique 384	Zambia 489
Libya 155	Botswana 44	Sierra Leone 37	Morocco 290	Madagascar 382
Namibia 81	Libya 34	Gambia 33	Tunisia 241	Equatorial Guinea 218
Botswana 53	Tunisia 31	Nigeria 25	Ghana 141	Lesotho 204
Côte d'Ivoire 48	Mauritius 15	Tunisia 20	Gambia 134	Kenya 145
Swaziland 45	Morocco 15	Botswana 19	Algeria 71	Seychelles 111

Source: UNCTAD Programme on Transnational Corporations, based on annex table 1 and UNCTAD, Handbook of International Trade and Development Statistics 1992 (New York, United Nations, 1993).

a/ 1991-1992 annual average.

b/ 1991-1992 annual average by 1990 population.

c/ 1991-1992 annual average by 1990 GDP.

d/ Increase in annual average between 1986-1990 and 1991-1992.

e/ Increase in annual average between 1981-1985 and 1986-1990.

f/ Excluding countries with negative flows (disinvestment) in 1981-1985 or 1986-1990, i.e., that have a "minus" denominator.

g/ 1991 only in numerator.

countries were oil-exporting countries, led by Nigeria. The only exception in this group is Morocco, one of five or six African countries experiencing a continuous increase of flows during the three periods under consideration. Other measures produce a group of smaller non-oil exporting countries that have been able to attract FDI inflows in quantities that are large relative to the size of their populations or their economies, or which have distinguished

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themselves by very rapid growth rates for a number of years. For example, \$21 million of annual flows does not bring the Seychelles even close to the list of the largest host countries in absolute terms; but these flows represent \$301 of flows per capita and \$65 per \$1,000 of GDP, which gives this country the lead, together with Equatorial Guinea, among the host countries ranked by relative importance of FDI.

42. A number of countries on the list of countries with increasing flows (Ghana, Senegal, Swaziland and Tunisia) experienced a serious decline during the mid-1980s (leading to negative flows for Senegal and Swaziland). For them, the fast growth of inflows at the end of the 1980s and the beginning of 1990s is merely a revival of the lost dynamism of flows from the beginning of the 1980s. The case in point is Ghana: it is likely that FDI was strongly curtailed from \$16 million annually a decade ago to \$2 to 4 million in the mid-1980s in response to an investment climate that was perceived as negative, but subsequently revived as the country undertook efforts to improve it.

B. Non-equity investment and joint ventures

43. The influence of TNCs in Africa goes beyond (and sometimes considerably so) the equity investment captured in FDI data. Many TNCs are involved in the region through non-equity arrangements such as management agreements, technical assistance agreements, technology-transfer agreements or the licensing of technology. Evidence from larger African economies indicates that non-equity forms may play as important a role as equity forms. In Nigeria, for example, income from the former accounted for 40 per cent of the total investment income paid overseas in 1977-1986, 14/ a figure that is twice the OECD estimate for the developing world as a whole.

44. In the past, as discussed earlier, the incidence of non-equity (or sometimes low equity) investment reflected the preference of Governments of host countries for this type of investment. This was a preference that was not limited to African countries alone; for instance, some Asian economies (such as the Republic of Korea and Taiwan Province of China) actively sought this form of investment during the 1960s and 1970s as a means of accessing international technology without compromising national control of the corporate sector. In Africa, similar motivations partially explained the increased equity stakes that many Governments took, during the same decades, in the corporate sector through various forms of nationalization, indigenization programmes or mandatory joint ventures.

45. While TNCs usually do not share host countries' preference for non-equity arrangements or mandatory joint ventures - or, for that matter, for any imposed form of involvement - in certain situations (e.g., when investment risks are high), these forms suit their interests as well, because they enable them to earn income without risking capital. An example of the wide use of non-equity forms is tourism - and specifically the hotel industry - which is a new area of interest to FDI in Africa, next to mining, agriculture and the energy sector. As a recent study reported, "there has been a steady increase in the number of high class hotels built in sub-Saharan Africa in recent years. ... Active in the hotel business have been Sheraton, Hilton, Inter-Continental and the French

Accor chain, together with Hong Kong interests in Mauritius. However, the involvement of these companies has been mostly in the form of management contracts: new hotels constructed in Africa in the 1980s have tended not to have been built with equity from these or other individual equity sources". ^{15/} As FDI data do not reflect non-equity arrangements, they underestimate the size and scope of the activities of TNCs in Africa. This applies not only to the hotel industry, but also to other industries in which non-equity arrangements are a convenient form of doing business (e.g., fast food, car rental services, trading, petroleum-exploration services), or where they help to avoid or spread risk. An example of the latter is the British company Booker McConnell that expanded its sugar and poultry output in Kenya through local subcontractors without acquiring additional land. ^{16/}

46. While the importance of mandatory joint ventures is decreasing with the liberalization of FDI policies and regulations, this does not mean that joint ventures will disappear altogether because, as mentioned earlier, they are also of interest to TNCs. In addition to the motivations already mentioned, joint ventures, for example, may be sought by TNCs operating in Africa as a form "enabling [them] to better understand the rules and regulations governing the society", ^{17/} as one TNC, H.J. Heinz, saw its joint venture with the Government of Zimbabwe. In some countries, "joint ventures in which governments have a stake are (still) considered less subject to adverse legislation". ^{18/} The incidence of joint ventures with parastatal companies may fall as the latter divest themselves of the shares in joint ventures as part of the privatization process. On the other hand, the availability of private joint venture partners or licensees is improving, ^{19/} and a growing number of joint ventures in the private sector may compensate for the divestiture of state companies.

C. Stock and sectoral distribution

47. Four investor countries dominate the FDI stock in Africa (table 5): the United Kingdom of Great Britain and Northern Ireland, the United States of America, France and Japan. Together, they hold approximately three quarters of the total FDI stock in Africa, estimated at some \$21 billion in 1991 (or 1.6 per cent of the total world stock). The Japanese total, however, is inflated by flags-of-convenience investment in shipping in Liberia.

48. Systematic information on the breakdown of FDI by sector for Africa as a whole is not available. Estimates for sub-Saharan Africa for 1982 put the share of the primary sector in the total stock of FDI at 55 per cent, and that of the secondary and tertiary sectors at, respectively, 28 and 20 per cent. ^{20/} The important role of the primary sector continued until recently, as confirmed by the sectoral composition of FDI stock in Africa of the six largest home countries (table 6). With the exception of Japan and the United Kingdom, the primary sector is the largest sector in the stock of France, the United States, the Netherlands and Germany. As already mentioned, Japan's stock is dominated by investment in flags of convenience in Liberia; beyond that, Japanese investment in Africa is minimal. And the stock of the United Kingdom evolved recently towards an increasing share of the primary sector, which accounted for 57 per cent of flows during the period 1988-1991.

Table 5. Stock of foreign direct investment in Africa,
by home country, most recent year

(millions of dollars and per cent)

Home country	Year	Amount
Japan	1992	6 813 ^{a/}
United Kingdom	1991	3 461
United States	1992	3 518
France	1990	2 658
Subtotal		16 450
Germany	1992	948
South Africa	1986	917
Switzerland	1989	739
Netherlands	1989	699
Italy	1989	440
Canada	1990	146
Spain	1989	74
Denmark	1990	42
Portugal	1988	35
Norway	1988	21
Total, above		20 511 ^{b/}

Source: UNCTAD Programme on Transnational Corporations, based on United Nations, Transnational Corporations and Management Division, World Investment Directory, vol. III, Developed Countries (United Nations publication, Sales No. E.93.II.A.9); UNCTAD Programme on Transnational Corporations, foreign-direct-investment database.

^{a/} Liberia accounts for 85 per cent (\$5.8 billion) of this investment which is entirely related to flags of convenience.

^{b/} \$14,738 billion, net of Japanese FDI in Liberia.

Table 6. Sectoral distribution of the stock of foreign direct investment in Africa, by largest home country, most recent year

(percent)

Sector	France 1989	Germany ^{a/} 1990	Japan 1992	Netherlands 1989	United Kingdom		United States 1991
					1987	1988-1991 ^{b/}	
Primary	87	42	11	68	30	57	61 ^{c/}
Secondary	3	20	3	22	40	24	20
Tertiary	10	16	86	10	30	10 ^{d/}	15
Total	100	100	100	100	100	100	100

Source: UNCTAD Programme on Transnational Corporations, based on United Nations, Transnational Corporations and Management Division, World Investment Directory, vol. III, Developed Countries (United Nations publication, Sales No. E.93.II.A.9), and national sources.

^{a/} Data do not add up to the total because of unallocated industries not included elsewhere in the table.

^{b/} Flows.

^{c/} Petroleum only.

^{d/} Financial services only.

49. A comparison of the composition of FDI stock in Africa with that in developing countries as a whole shows that the primary sector is by far a much more important recipient of FDI in the former than in the latter. ^{21/} The services sector, on the other hand, received very little FDI, if compared with other developing or the developed countries. This is consistent with the pattern shown in table 3 in which investment in oil-exporting countries dominates inward FDI flows to the continent.

50. As mentioned earlier, however, not all investment in the oil-exporting countries is necessarily undertaken in the oil industry or even the primary sector. The data in table 7 shed some light on this issue, including for the two largest host countries. The stock data show that the primary sector dominated, during the early 1980s, FDI in Egypt and Gabon, accounting, respectively, for 87 and 70 per cent of their stock of FDI, but not in Congo and Nigeria, where its share was only above 20 per cent. Flow data show that close to 60 per cent of flows in the late 1980s went to the petroleum industry in the case of Tunisia. At the same time, the primary sector was not the largest sector in Egypt; this corresponds to the descriptive information that, at that time, Egypt was also successful in attracting substantial amounts of FDI to, among other things, its tourism industry. Nigeria, too, a major petroleum-exporting country, shows a rather diversified composition of flows by sector and

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Table 7. Share of the primary sector in the total inward foreign-direct-investment stock and flows, selected host countries, 1980s

(percent)

Country	Year	Share
A. <u>Stock</u>		
Botswana	1989	88
Congo	1982	21
Côte d'Ivoire	1982	19
Cameroon	1986	6
Egypt	1982	87
Gabon	1982	70
Liberia	1982	72
	1980	6
Morocco	1985	9
	1988	9
Malawi	1982	55
	1980	22
Nigeria	1985	13
	1988	31
Zimbabwe	1981	32
B. <u>Inflows</u>		
	1986	4
Egypt	1988	3
Ghana	1986-1989	19
Kenya	1982-1985	5
Mauritius	1988	1
Morocco	1985-1988	10
	1980-1985	9
Nigeria	1985-1990	44
Tunisia	1986-1989	56 a/
Zambia	1980-1983	46

Source: UNCTAD Programme on Transnational Corporations, based on UNCTAD Programme on Transnational Corporations, World Investment Directory, vol. V, Africa and West Asia (Geneva, United Nations, forthcoming).

a/ Refers to petroleum only.

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industry during the 1980s (table 8). Thus, as far as sectoral composition is concerned, the picture is quite differentiated.

Table 8. Nigeria: sectoral composition of investment inflows, 1980-1990

(per cent)

Sector	1980-1985	1986-1990	1980-1990
Primary	9	51	20
Secondary	24	47	30
Tertiary	62	2	47
Unallocated	5	-	0-113

Source: UNCTAD, "Case study submitted by Nigeria" (TD/B/WG.1/Misc. 3/Add.9), Ad Hoc Working Group on Investment and Financial Flows, Geneva, 10 January 1994, vol.I, p. 36.

III. EXPLAINING TRENDS

51. Foreign direct investment is welcomed and, in fact, actively sought by all African countries, and FDI policies have been liberalized accordingly. Yet, in clear distinction to other regions of the developing world, TNCs have responded only cautiously because, in the world market for FDI, Africa as a whole does not compare favourably as regards a number of basic determinants of FDI. In addition, a number of factors that favoured an increase of FDI to other developing countries, such as privatization programmes and debt-equity swaps, play only a limited role in Africa.

A. General determinants

52. An explanation of FDI in Africa would not be complete without at least briefly reviewing the basic factors that influence the investment climate in Africa for both domestic and foreign investors and make Africa less attractive than other developing countries. The list of these factors includes:

(a) Continuing civil conflicts and political crises, natural disasters (especially drought) and adverse consequences of the recession in developed countries that obviously are not conducive to investment. The group of countries affected by these circumstances is quite large. At least five countries remain mired in conflicts: Angola, Liberia, Rwanda, Somalia and Sudan. Another group of countries is emerging from prolonged periods of conflict: Chad, Eritrea, Ethiopia, Mozambique and Uganda. Countries recently affected by drought include Algeria, Libya, Morocco, Tunisia and Zimbabwe. Last

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but not least, strikes and protests against unpaid wages and stipends or against economic policies were organized in 1992 in about a dozen countries. ^{22/} Most of the countries afflicted by wars as well as social or political conflict have received virtually no new FDI or have experienced prolonged periods of disinvestment. Notable exceptions include Angola and Mozambique which were able to attract quite considerable FDI inflows during 1991-1992.

(b) Markets that are typically relatively small. Most African economies in sub-Saharan Africa have an average GDP of \$3.5 billion (or \$340 per capita), and the north African economies have an average GDP of \$25 billion (or \$1,120 per capita). ^{22/} Attempts to address this problem through regional integration have either collapsed or proved ineffective in terms of affecting intra-regional trade and creating larger economic areas.

(c) Growth that is lower than in other developing countries or even declining and which, in any event, is often too low to assure GDP-per-capita growth: 1990 - 3 per cent; 1991 - 2.3 per cent; and 1992 - 1.5 per cent. ^{23/} The lack of dynamism prolongs the problem of the smallness of markets.

(d) Poor and in many cases deteriorating physical infrastructure, especially telecommunication and transportation, and the lack of capital to improve it. Added to that are often inadequate institutional and especially financial infrastructures, such as banking and financial institutions.

(e) The high level of indebtedness that continues to make the debt of many African countries difficult to manage. The debt problem is aggravated by balance-of-payments difficulties caused in particular by the sharp decline of commodity prices. Therefore, a number of African countries suffer chronically from foreign exchange shortages. This makes it very difficult to guarantee that FDI income can be transferred - a key aspect of a favourable investment climate.

(f) Slow progress in a number of countries in introducing market- and private-sector-oriented economic reforms undertaken within the framework of structural adjustment programmes, for both objective and subjective reasons.

(g) Lack or low level of skills and general technological capabilities. Added to that are relatively high production costs. By the mid-1980s, costs of production in sub-Saharan Africa were frequently as much as double those in low-income Asia. A 1989 World Bank study found that, for example, the cost of rail transport was 2.8 times higher and wages of unskilled workers in the construction sector 1.4 times higher in sub-Saharan Africa. ^{24/} Since productivity levels in Africa were generally lower than in low-income Asia, relative production costs further weakened the attractiveness of Africa as an investment location.

53. In clear distinction from a sizeable group of countries afflicted by a few or several of these adverse factors stands a small group of countries that has done well in terms of attracting FDI flows (table 4). While oil and other natural resources have been a factor in attracting FDI to a few of these countries (e.g., Angola, Namibia and recently Equatorial Guinea), many others - in addition to having the fundamental factors right - have been able to use specific locational and other advantages to boost their attractiveness. For

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example, Lesotho and Swaziland benefited particularly from their special status as members of a common monetary area, with the potential as a base for exporting both to the region (as members of the Preferential Trade Area) and the European Union (as signatories to the Lomé Convention). Mauritius has particularly benefited from FDI by firms based in Hong Kong seeking to develop exports to Europe and elsewhere. Capitalizing on its success, the island is seeking foreign investors in banking and finance, with a view towards becoming an offshore financial centre and to diversify the sources of its FDI inflows. Morocco and the Seychelles benefited from very large investments in the tourism industry. Morocco has been trying to make the most of its economic achievements, cheap labour and closeness to Europe by establishing a low-cost manufacturing base for exports to the European Union. 25/ Kenya - among the top 10 in the growth list during the 1980s - derived significant benefit from a high level of reinvestment of corporate earnings at a time when foreign exchange controls were a constraint on the transfer of dividends and management fees. Botswana is an example - not frequent among African countries with similar characteristics - of a country that over the years has been successful in using FDI for the development of its natural resources and its transformation from a low-income country into a middle-income one. 26/ These country-specific factors most likely have been more important in attracting FDI - especially during the 1980s - than fiscal and legislative reforms, since, of these countries, only two (Lesotho and Mauritius) had introduced specific incentive regimes by 1989.

54. The success of these countries demonstrates that it is wrong to assume that Africa as a whole is an inhospitable location for FDI. Rather, differentiating analyses are required to determine the specific locational advantages that individual countries have and that can become the basis for a mutually beneficial relationship between TNCs willing to explore investment opportunities and Governments prepared to do whatever is in their power to create a favourable investment climate.

B. Structural adjustment programmes and foreign direct investment

55. Structural adjustment programmes have become central to economic policy in most African countries in the course of the 1980s and early 1990s. These programmes have typically involved massive devaluations, the removal of import quotas, significant reductions in tariffs, the introduction of positive real interest rates, the freeing of agricultural and energy prices, the privatization of publicly held assets and the establishment of a more favourable regime for FDI. The liberalization of capital markets has also often been a part of the package.

56. The impact of these programmes on TNCs already operating in Africa and on the inflow of new FDI has been mixed. In the short run, many existing foreign affiliates in import-substituting industries, exposed suddenly to import competition after years of enjoying benefits of protection, may have been affected negatively. Examples include the automobile-assembly industry and the textile industry which in some countries were entirely oriented towards domestic markets protected by high tariffs. Following tariff reductions carried out in the context of structural adjustment programmes, these markets have frequently

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been subject to a surge of imports which have undercut existing producers, both foreign and domestic. Thus, for example, the automobile industry in Kenya, the textile industry in Nigeria and the food-processing industry in Zambia each constitute cases in which foreign affiliates have been operating since 1990 or before at levels of 20 per cent of capacity or below. Overall, as a result of these and other processes, employment in manufacturing industries during 1990-1993 in these and other countries has fallen by as much as a third. Another adverse short-term consequence of adjustment programmes for TNCs includes the reduction, sometimes quite large, of the book value of their assets held in Africa, expressed in hard currencies, as a result of devaluations. On the other hand, devaluations benefit TNCs in export industries, because of the improved relationship between local costs and the value of export earnings. Furthermore, the introduction of export-retention accounts has made it easier for foreign affiliates to obtain foreign exchange for the payment of dividends and other transfers.

57. In the long run, however, TNCs, including those already located in Africa as well as new ones, stand to benefit from structural adjustment programmes. An important aspect of the rationale behind these programmes has been that their implementation will also benefit the host economies by supplementing domestic efforts with new, much needed capital, technology, skills, access to foreign markets and/or eased foreign currency pressures. One of the expectations related to the implementation of these programmes is that they will, in the long run, make import-substituting industries more efficient and hence more able to compete in regional and international markets. Foreign affiliates play an important role in this regard: even though they may suffer short-term losses, as all firms in these industries would tend to do, they are much better positioned than domestic firms to rationalize their operations and become internationally competitive. The example of the automobile industry in Latin America indicates that foreign affiliates in developing countries are indeed capable of fundamentally restructuring their operations when affected by severe domestic economic crises. ^{27/} This corporate adjustment process is further facilitated by a reorientation of corporate strategies towards regionally or globally integrated production systems. ^{28/}

58. So far, the reaction of TNCs to structural adjustment programmes has varied, typically according to sector. In the mining sector, various incentives, such as export-retention schemes, have primarily been of benefit to Africa's traditional investors in mineral development which were also active investors during the pre-structural adjustment period. But they have attracted some small mining companies that are newcomers to Africa. However, the new approach has attracted only a modest number of investors in agri-business, partly because of pricing uncertainties in both local and international markets. And it has yet to succeed in attracting significant investment into manufacturing (such as textiles for export) and services with a small number of exceptions (such as Lesotho and Morocco), the response by foreign investors to new incentive schemes in these sectors has been rather modest.

59. One of the reasons for caution is perhaps that, in the course of the implementation of the programmes, the embryonic manufacturing sectors in many African countries have come under considerable stress. The International Finance Corporation, one of whose main tasks is to find viable commercial

projects to be co-financed with TNCs, describes the investment climate in Africa in its 1992 Annual Report in the following manner: "Most countries are still struggling with problems that are hampering economic development, including unsustainable internal and external imbalances, heavy debt burdens, and weak financial and physical infrastructures In the light of these problems the climate for private investment remains difficult. Moreover, increased private sector investment will come only after the economic adjustment begins to bear fruit." 29/

60. The fact that most national structural adjustment programmes have not yet borne fruit in terms of increases in real income per head has also led a number of Governments to pursue these programmes only on a selective basis. This hesitation, in turn, feeds back into the attitudes of potential investors, including foreign investors, towards a substantial engagement in Africa. Therefore, it is unlikely that a development push will come from the private sector, domestic or foreign. As The Economist noted, "the nature of the difficulties is such that the initiative to start development moving in Africa rests with governments, domestic and foreign. . . . The rich countries, and the multinational institutions they control, need to be bolder in rewarding eager reformers with debt forgiveness, grants and technical expertise". 30/ One should add that the rewards, ultimately, could also include increased flows of foreign investment.

C. The role of debt-equity swaps, privatization programmes and portfolio investment

61. One of the reasons why Africa has lagged behind the other developing country regions in terms of attracting FDI inflows is that it has largely lacked what was a driving force of FDI flows in a number of these other countries in recent years, namely, debt-equity swaps and FDI linked to privatizations. Both instruments subsidize, to a certain extent, FDI. In addition, Africa has also largely missed out on other types of private investment flows, especially portfolio equity flows, which have accompanied FDI flows to a number of developing countries in Latin America and South-East Asia. The latter countries have been able to exploit a number of direct and indirect links between privatization, FDI, debt-equity swaps and portfolio investment, and thus managed to lessen their debt burden and to attract rapidly increasing flows of private capital, including especially FDI and portfolio equity flows.

62. Latin American countries have made the widest use of privatization programmes (table 9) and debt-equity conversions as vehicles to attract FDI. As a result, both sources contributed about one third (over 15 per cent each) to FDI flows during the period 1988-1992. 31/ Furthermore, during 1989-1993, the region attracted \$23 billion (or 53 per cent of the developing country total) of gross equity portfolio flows, because it relied heavily on the stock market and foreign capital in the privatization of, among other things, large telecommunication companies. 32/ Privatization as a means to attract FDI has also been widely used by the countries of Central and Eastern Europe, accounting for 43 per cent of their FDI flows during 1988-1992, while the countries of South-East Asia relied more on their stock markets for privatizations as well as foreign capital, attracting \$16 billion of portfolio equity flows. 33/

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63. None of these processes occurred in Africa on a scale sufficient enough to affect FDI flows. Debt-equity swaps have been very limited in value and have taken place mainly in countries such as Nigeria where a high proportion of total debt was commercial rather than multilateral. The total value of all debt-conversion deals in Africa between 1984 and 1992 was \$820 million. ^{34/} The bulk of this reduction was achieved by a simple sale of the debt at a heavy discount which accordingly reduced the borrowing country's liability. Figures are not available on the proportion of this total swapped for equity as opposed to other purposes. But even if the entire total would have been swapped for equity and if foreign investors would have been the only participants in these swaps, they would have increased FDI flows to Africa in the same period by 3 per cent only.

64. African countries have been more active in the area of the privatization of government-owned assets which, increasingly, have included many parastatal companies. During the period from 1980 to 1987, Africa even led the list of regions with the strongest privatization efforts, measured by the number of transactions, accounting for 210 out of a total of 456 cases in all developing and Central and Eastern European countries. ^{35/} The vast majority of these were, however, small-scale privatizations with very low absolute assets values. During 1988-1992, revenues of African countries from privatizations amounted to some \$350 million - a negligible amount, if compared to the \$62 billion for the developing world as a whole (see also E/C.10/1994/2). Furthermore, with the exception of some large export-oriented mining companies, such as Zambia Consolidated Copper Mines, privatization programmes have proved to be of modest interest to TNCs. Besides, privatized assets were not always made available to foreign investors: sometimes they were returned without cost to their former owners (as with the Ugandan sugar industry). More frequently, their sale was often limited to the domestic private sector, including to existing management teams. Given these considerations, the role of privatization programmes in FDI inflows in Africa was insignificant, accounting for at best around 1 per cent of inflows during 1988-1992 (table 9).

65. Despite the fact that a number of African countries have had stock markets for quite a long time, they have not been able to attract significant foreign portfolio investment, and especially equity portfolio investment, because these markets have been considered too volatile or too small. Therefore, the amount of this investment, \$369 million during 1989-1993, is very small by all standards, be it compared to the total for all developing countries (\$41 billion), or to FDI flows to Africa during that period (\$17 billion).

66. Some of these weaknesses can, however, be converted into strengths in case of a number of countries that have just begun substantial privatization programmes and targeted foreign investors as major participants and/or have sought to use stock markets to attract foreign investors. Countries that have expanded their privatization programmes include Egypt, Morocco and Tunisia. Morocco's programme involves the sale of 112 companies from all sectors -

Table 9. Foreign-direct-investment inflows from privatization transactions:
Africa and other regions, 1988-1992

(Millions of dollars and percentage share of total FDI inflows)

Region	1988	1989	1990	1991	1992	1988-1992
Africa						
Sub-Saharan Africa						
Value	-	13.8	38.1	2.6	44.0	98.5
Share	-	0.6	5.7	0.2	3.4	1.4
North Africa						
Value	-	1.0	-	3.2	22.5	26.7
Share	-	0.1	-	0.5	1.1	0.4
Latin America and Caribbean						
Value	213.7	157.3	2 136.3	3 299.9	2 311.8	8 119.0
Share	2.7	2.2	27.7	25.9	16.8	16.4
Asia						
East Asia & Pacific						
Value	-	-	-	75.0	301.7	376.6
Share	-	-	-	0.6	1.9	0.7
South Asia						
Value	-	0.1	10.6	4.2	37.0	51.9
Share	-	0.04	3.6	1.2	8.8	3.4
Central and Eastern Europe						
Value	-	422	489	1 917	2 411	5 238
Share	-	39	39	51	41	43

SOURCE: F. Sader, "Privatization and foreign investment in the developing world, 1988-1992" (Washington, D.C., The World Bank, 1993), Working Paper 1202, and additional information from the author.

including mining companies, banks, hotels and textile factories - and is expected to raise about \$2.2 billion; foreign participation in this programme is encouraged. 36/ If other countries with large privatization programmes follow Morocco's example (e.g., Nigeria), they may be able to attract noteworthy flows of FDI. Efforts of host countries in this regard can be supported by home countries. Thus, for instance, it is partly to foster such inflows that the Commonwealth Development Corporation of the United Kingdom has recently launched an investment fund targeted at privatisation issues in Commonwealth countries; the fund will be managed by a merchant bank. 37/

67. As regards stock markets, which may serve as a conduit for FDI, countries with such markets have sought to deepen them by increasing the number of listed companies (e.g., Botswana, Kenya) or giving more rights to foreign investors (e.g., Zimbabwe), or both. Other countries are only establishing their markets for the first time (e.g., Malawi, Tanzania, Uganda and Zambia). Even though most African markets are still shallow, illiquid and small, if these countries make progress in stabilizing their economies, they will put themselves into a position to attract growing amounts of capital. For example, the Zimbabwe Stock

Exchange attracted about \$12 million from offshore sources between July and December 1993, causing the industrial index to more than double. 38/

68. When assessing the impact of privatization programmes and debt-equity swaps on FDI flows, it has to be kept in mind that they are, to a certain extent, one-off factors that can influence FDI flows within certain limits defined in every country by the pool of private debt to be converted and that of companies to be privatized. Nevertheless, as the evidence from other countries, especially in Latin America, shows, the impact can extend beyond the direct purchase of privatized companies by foreign investors; as one study suggested, one dollar in privatization revenue generates an additional 38 cents in new FDI inflows, and a 1 per cent increase in foreign participation adds another 50 cents. 39/ It also appears that privatizations in the financial sector and in infrastructure have especially strong effects on foreign investors. More generally, if privatizations, an upgrading of the stock market and debt conversions are all part of a policy that improves "the general economic environment such that it appears more profitable for foreign investors to engage in ventures in these countries", 39/ regular (not only subsidized FDI) is likely to be attracted, so that investment inflows continue to grow or are maintained at a high level.

IV. IMPACT OF FOREIGN DIRECT INVESTMENT ON THE ECONOMY

69. The impact of FDI and TNCs on a country depends on many factors, such as the role of TNCs in the economy, the sector in which FDI is undertaken, the type of investment (e.g., export-oriented or import-substituting), links of foreign affiliates with the host economy and, last but not least, on the conditions in the host economies. Countries, and especially developing countries, are interested in specific impacts which may, however, change over time and vary from country to country. African countries, as many other countries, have gone through a long and drastic evolution in this respect: from seeing TNCs as part of the problem (to be solved by minimizing the role of TNCs), they are now considering them as part of the solution and hence are competing with other countries to attract them. In fact, the expectations of some countries may be too high as to the role that FDI can play in promoting economic growth. Some may be disappointed because TNCs do not invest in their economies in spite of extensive regulatory reforms or exert an impact that is not perceived to be positive. Others narrow their expectations to quick financial effects (regarding resource flows or the balance of payments) and do not appreciate qualitative, indirect contributions to, for example, technology or skill development. Inadequate statistical data on FDI and the performance of TNCs in Africa make it very difficult to assess their overall and specific impacts on national economies. What exists - a fragmented literature (for the most part not up to date) and some limited data on some aspects of FDI - allows only cautious conclusions about the scope and the direction of possible impacts in a number of areas.

A. Output and employment

70. The most aggregate impact of foreign affiliates on host countries is their contribution to output and job creation, measured by their share in GDP and

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other economic aggregates (e.g., employment). Such measures are, however, difficult to come by because countries usually do not collect this type of data separately for foreign affiliates; whatever estimates exist result from special studies. The share of TNCs in the output of Nigeria before the indigenization decrees of 1972 and 1977 was estimated at 40 per cent, ^{40/} and in that of Kenya at 20 per cent in 1963. ^{41/} The importance of TNCs in African countries tended to decrease when many of them asserted national control over their economies, among other things, by limiting the role of FDI. In the case of Nigeria, the share of TNCs in output fell to 20 per cent by 1986. ^{42/} Data for Kenya based on employment in majority-owned foreign affiliates also show a decline to 7 per cent, or 80,000 out of 1.1 million employees in the formal sector. ^{43/} Even though these shares declined, they are not that low, measured by the standards of developing countries that receive significant amounts of FDI: for Hong Kong, a major host developing country, the share of foreign affiliates in the sales of the secondary sector in 1987 was 17 per cent, and for the Republic of Korea it was 22 per cent (1986). ^{44/} In smaller and some mid-sized African countries, the contribution of foreign affiliates to employment, production and investment is much higher, particularly with respect to manufacturing employment. In Mauritius, for example, they accounted for 65 per cent of overall employment in 1984; and in Ghana (1986) and Tunisia (1988), for around half of manufacturing employment. ^{45/} Figures on affiliates' share in production for countries such as Botswana, Gabon or Seychelles are also very high. Interestingly enough, TNCs play a relatively important role in a number of countries that have not received sizable FDI flows since several years or that even experienced disinvestment. A case in point has been Zimbabwe, which experienced net disinvestments of \$54 million during 1980-1992; still, TNCs continue to play an important role, accounting for a quarter of the assets in manufacturing.

71. Annex table 1, in addition to serving as a basis for ranking host countries by the relative importance of FDI flows (see also table 4), also shows how this importance, based on annual averages in three periods, was changing relative to GDP between 1981 and 1992. Out of 49 countries for which data are available, only 8 countries experienced a consistent noticeable increase of these shares during these three periods. In two cases, the improvement was barely noticeable. More interesting is the comparison between 1986-1990 and 1991-1992 because, during the second half of the 1980s, structural adjustment programmes (which typically include a liberalization of FDI policies) were implemented in many countries and were expected to bring, among other things, increased FDI by early 1990s. The group of countries with increases in shares almost doubled, to 15; but in four or five of them, these increases were very small, namely in the range of one to two tenths of a percentage point.

72. The activities and, therefore, the impact of TNCs in most African countries are concentrated in few industries and sometimes even only in one industry where their quantitative role is then obviously much greater than their average in the economy as a whole. Clearly, in those countries in which FDI is concentrated in the development and export of natural resources, notably in the nine oil exporters, it has played and continues to play an important role in sharing high exploration and development costs, bringing know-how and technology and sustaining and expanding exports. The spillover benefits of this type of investment are usually minimal, although they need not be so. Links to the

local economy are few and they are sometimes restricted by the host country. 46/ Oil and mining companies use local labour, but most of their other inputs are imported and almost all of their output is exported. 47/ Benefits from this type of FDI for the rest of the economy largely depend on how Governments manage their relationship with TNCs and how they use (often fluctuating) revenues from FDI in the primary sector. As mentioned earlier, Botswana is an example of a country which, relying on FDI in the development and exports of its natural resources (mainly diamonds), advanced from the group of the world's poorest countries at its independence to the group of middle-income countries by 1990, a result achieved by relatively few countries. 48/

73. As was mentioned earlier, sometimes TNCs can play a key role without engaging large capital expenditures because they can rely on non-monetary assets. In Africa, this is certainly the case with trading TNCs that play a crucial role in supporting the export of primary commodities through joint ventures with local companies (e.g., bananas in Cameroon), by serving as buying agents on behalf of other firms (e.g., wood in Côte d'Ivoire), or by exporting on their own account (e.g., tea exports from Kenya). 49/ The trading function is important because a comparative advantage in producing a good does not necessarily imply a comparative advantage in marketing it. The relatively high skill requirement of international trading services suggests the possibility that some African countries may go through a period when they enjoy a comparative advantage in producing certain commodities but not marketing them. In such cases, the role of transnational trading companies can be a useful supplement to countries' exporting efforts. As examples of some developing countries in Asia show, this may change and, with time, countries may not only successfully produce but also successfully market their commodities. 50/

74. As to the sectoral dimension of the FDI impact, reference has already been made to domestic-market oriented, import-substituting type of investment in manufacturing, encouraged by trade protection and near monopoly positions. Its main contribution is to employment and the production of goods. Foreign affiliates in these industries co-exist with local companies, but in most cases they did not establish linkages with the local economy and relied on imported inputs for current production. Their qualitative impact on the economy was therefore very limited. Although they were meant to be a relief for the balance of payments, they were increasingly seen as a burden because of imported inputs and transferred investment income. 51/ As discussed earlier, these industries, including the foreign affiliates in them, were put under stress when import regimes were liberalized in the framework of structural adjustment programmes. It remains to be seen whether the potential of foreign affiliates to rationalize their operations - and the industries in which they operate - in the face of international competition will materialize.

75. Other types of investment (especially efficiency-seeking investment) have largely been absent from Africa, except perhaps export-platform investment in Mauritius and more recently in Morocco. This type of investment is actively sought by a number of countries establishing export-processing zones or trying to use their privileged access to the large markets of the European Union or South Africa.

76. The types of FDI discussed so far are typical for goods industries. They do not apply to services industries because most services are neither storable nor tradable and therefore have to be produced where they are consumed. Moreover, a number of service industries have traditionally been highly regulated; considered to be of strategic importance, they were typically closed to foreign investors. Furthermore, a number of key service industries were affected by either nationalization or indigenization programmes. In some countries, the presence of services TNCs was kept to the minimum necessary to provide the economy with some of the unique services that could neither be supplied by domestic producers nor imported (e.g., petroleum-related services in Algeria). A few countries realized soon that indigenization policies could be harmful to sophisticated service industries and abandoned them, while many others continued to restrict FDI in services for many years. The result has been not only an underdeveloped services sector, but also diminished competitiveness of export industries relying on services inputs. 52/

B. Domestic investment

77. The contribution of FDI to domestic investment is potentially important, especially in Africa, where the level of domestic savings is low and the general trend of gross domestic investment during the 1980s has been downwards (table 10). Both sub-Saharan Africa and North Africa saw a significant relative increase in gross domestic investment in nearly every country during the period 1965-1975, typically by as much as a third. However, the 1980s saw an equally consistent fall in the share of gross domestic investment in GDP, with only some 14 countries out of 49 recording an increase, but in 5 of these countries, despite an increase, investment remained at a relatively low level (below 15 per cent). 53/

Table 10. Share of gross domestic investment in gross domestic product, 1965-1991

(per cent)					
Region	1965	1975	1980	1990	1991
Africa	16	29	27	21	20
North Africa	18	34	31	23	..
Sub-Saharan Africa	14	25	24	17	..

Sources: UNCTAD, Handbook of International Trade and Development Statistics (New York, United Nations, 1993), pp. 447-448; and United Nations, World Economic Survey 1993 (New York, United Nations, 1993), p. 217.

78. For the most part, total FDI flows made only a small contribution to total gross domestic investment (annex table 2). Important exceptions to this were the countries with high shares of FDI flows in GDP listed in table 4; these shares translated into a much higher relative importance of FDI flows to gross domestic investment, reaching 36 per cent in Sierra Leone (1991), 31 per cent in Seychelles (1986-1990) and 23 per cent in Botswana (1986-1989). Among the 29 countries shown in annex table 2, 16 showed an increase in the share of FDI in total investment between 1981-1985 and 1986-1990. In 9 out of these 16 countries, the improvement was at a level below 5 per cent. In the period between 1986-1990 and 1991-1992, 7 out of 15 countries for which data are available registered an increase in the share of FDI flows in their total investment. Keeping in mind that during the 1980s FDI flows increased only modestly and that they stagnated at the beginning of the 1990s, the improvements in the share of total investment financed from FDI most likely are a result of stagnating or perhaps even declining absolute levels of total investment.

C. Other areas of impact

79. In the light of the chronic shortages of foreign exchange in most African countries, the impact of foreign affiliates on the balance of payments is of special interest to those countries. Positive contributions in this respect include inflows of foreign capital to initiate and/or expand projects; export revenues if affiliates are export-oriented or contribute to exports indirectly; and savings of foreign exchange from import substitution. Burdens for a host country's balance of payments include remittances of profits, fees and royalty payments to parent companies; imports of goods and services; and transfers of salaries by expatriate employees. The net foreign exchange effect depends on a number of factors that determine the size of foreign exchange credits and debits associated with each foreign affiliate over its entire life. Indirect effects can be quite important among them; by supplying better and/or cheaper goods and services to local exporting firms, foreign affiliates can increase the competitiveness of a host country's exports. The overall impact of foreign affiliates on the balance of payments of African countries is impossible to ascertain with precision because the data on credits and debits needed for making such an assessment are not disaggregated by foreign versus domestic ownership of firms. Most likely, in the countries where FDI is export-oriented - mainly in countries endowed with natural resources and those with successful export-processing zones (e.g., Mauritius) - foreign affiliates have played a role in sustaining and expanding exports and, overall, contributing positively to the balance of payments. Also, the important role played by trading TNCs in supporting exports of commodities, as discussed earlier in this chapter, should not be forgotten in this context.

80. However, in those countries in which FDI has been concentrated in import-substituting industries, it has tended to have a negative effect on the balance of payments as FDI inflows have frequently been offset by payments for related imports and outflows of dividends and other forms of corporate payments. For example, in Kenya the cumulative outflows of investment and fee income alone totalled 1 billion Kenyan pounds between 1979 and 1986, whilst the total inflow of new investment (including re-invested earnings) was 266.5 million Kenyan pounds. ^{54/} As the corresponding positive impact on exports was most likely not

significant because of the nature of FDI in Kenya, it can be assumed that the difference between the two figures represents an important part of the total balance-of-payments impact. A similar pattern could be observed in Côte d'Ivoire - another country with similar types of FDI - where the net effect of private capital inflows, when counter-balanced by profit and dividend outflows, only assisted the balance of payments in 8 years out of 20 from 1965 to 1984. 55/

81. Although an assessment of the overall impact of foreign affiliates on the balance of payments is almost impossible, the direct impact of FDI on net transfers of related financial resources can be measured by comparing FDI inflows with outflows of remitted profits. Data for Africa (table 11) show that, during the first half of the 1980s, transfers of profits were higher than FDI inflows in both oil-exporting and non-oil-exporting countries, despite restrictions on transfers that were gradually relaxed in a number of countries during the second half of the 1980s. But despite that liberalization, the situation in the two subsequent periods reversed, and transfers turned positive in both groups of countries. Among oil-exporting countries, the two largest host countries - Egypt and Nigeria - experienced quite significant surpluses of inflows over remittances during the three subperiods, accounting for the lion's share of the group's surplus (annex table 3). Among non-oil-exporting countries, large positive transfers were experienced by Morocco (in the three periods) and smaller ones by Zambia, Seychelles, Mauritius (in 1986-1990), Madagascar, Lesotho and Ghana.

82. Capital is only one of the assets of the FDI package that can be of benefit to host countries. Other assets include transfer of technology, the development of human resources and the upgrading of backward and forward linkages.

83. The question of transfer of technology is difficult to assess. In the case of the many industrial and agri-business concerns that were established through FDI but nationalized in the 1960s and 1970s, the pattern appears to have been one in which technologies have been operated with decreasing skill and precision over time. This is partly because, in many cases, there was either no continuing relationship with the former supplier or only a minimal one. This is different from the experience of countries in East Asia which, as noted above, sought to minimize equity investment from abroad during the 1960s and 1970s and, instead, encouraged technology-sharing agreements. Where TNCs have maintained a strong presence in Africa, as in the oil and motor-assembly industries, a competent cadre of manpower able to operate advanced technology has been created. The experience suggests that, even where foreign-owned assets are transferred to national ownership, it is vital to maintain at least commercial linkages with the TNCs that initially created the assets. Further, the way in which these linkages are sustained also plays a crucial role in the transfer process. As one observer put it: "In reality there is a long and uncertain learning process involved, differing with the nature of the technology, the efficiency of factor and product markets, and the provision of various technological information and services from the infrastructure institutions." 56/

Table 11. Africa: external financial flows related to foreign direct investment, 1981-1992

(Annual averages, millions of dollars)

Country group and period	FDI inflows	Profit remittances	Net transfer
Africa			
1981-1985	1 680	3 157	-1 477
1986-1990	2 852	2 141	711
1991-1992	2 864	1 211	1 653
Oil-exporting countries			
1981-1985	1 397	2 572	-1 175
1986-1990	2 062	1 440	622
1991-1992	1 984	843	1 141
Other countries			
1981-1985	283	585	-302
1986-1990	789	700	89
1991-1992	880	368	512

Source: UNCTAD Programme on Transnational Corporations, based on annex table 3.

84. As regards the development of human resources, a popular proxy measure in the literature has been the share of expatriates versus local personnel in managerial positions in foreign affiliates. According to this measure, some examples suggest that there may still be considerable room for progress in African countries. By 1984, local personnel accounted for only 51 per cent of senior posts in industry in Côte d'Ivoire, and it was in a majority in only 6 out of 16 subsectors. ^{57/} In Kenya in 1982, ^{58/} less than 60 per cent of managers and administrators in the entire manufacturing sector were Kenyans. Without additional information it is, however, difficult to make a more general judgement whether these ratios reflect a lack of human development in foreign affiliates or management-skill shortages in the host countries concerned and, in any event, how they have changed over the past decade. ^{59/}

85. Another impact in the area of human resources development concerns working conditions and salaries in foreign affiliates. As illustrated by the example of Kenya (table 12), average wages paid by foreign affiliates in the services sector and in manufacturing exceed those paid by local companies, private or government owned. There are also important intersectoral differences illustrating a different impact of services affiliates and manufacturing affiliates on host countries: average wages paid by foreign service affiliates exceed those paid by foreign manufacturing affiliates by more than 90 per cent. If wages are taken as a proxy measure for skills, FDI in services involves much higher skill operations than FDI in manufacturing. Two factors account for this: the non-tradability of services and their reliance on human rather than physical capital. Both mean that a parent TNC in services (e.g., an insurance firm) establishing an affiliate in an African country has to reproduce, in distinction from manufacturing firms, factor and skill proportions used at home. The impact on a host country depends then on its labour market: if needed skills are abundant (as computer programmers skills in India), the contribution of foreign affiliates will be to increase employment. If skills are scarce, foreign affiliates may have to import them, divert them from local companies by higher pay or train them; under the last of these conditions, soft technology is transferred to the host country. 60/

Table 12. Annual compensation payments in Kenyan enterprises, a/ by type of ownership, 1985

(Thousands of Kenyan shillings per employee)

Type of company	Services	Manufac- turing	Mining	Agri- culture	Average
Foreign owned	55.4	28.8	-	8.6	27.0
Privately owned	31.6	20.5	5.7	8.5	18.3
Government owned <u>b/</u>	32.6	23.5	10.2	11.4	26.8
Average	35.8	22.2	6.7	8.8	22.4

Source: UNCTC, "Development through partnerships: business relations between state and foreign enterprises in Kenya" (New York, UNCTC, 1987) vol. II, pp. 25-26, mimeograph.

a/ Enterprises with 40 or more workers.

b/ Enterprises with governmental participation, including joint ventures with foreign firms.

/...

V. CONCLUSIONS

86. In 1970, Africa had absorbed more FDI per unit of GDP than Asia or Latin America, a situation that had changed dramatically by 1980 (table 13). As the preceding analysis indicated, the situation deteriorated further during the 1980s and early 1990s. The widespread liberalization of FDI policies by Governments in Africa during the 1980s, often as part of structural adjustment programmes, represented a reversal of previous policies and was undertaken with a view towards attracting more FDI. The analysis shows that - despite the less encouraging picture for Africa as a whole - a number of countries has, indeed, succeeded in attracting relatively sizeable flows, either consistently over the years or in particular years.

87. To improve this performance substantially and broaden it to a wider range of countries, requires, of course, considerable improvements in the basic factors determining FDI flows. ^{61/} Most of these are not under the immediate control of Governments and, in any event, require longer time to materialize. An obvious immediate mechanism - limited as it may be - consists of the further improvement in policies, regulations and administrative practices regarding FDI, learning, as much as possible, from best practices in this area in other countries. Trends outlined at the beginning of this report indicate that many countries have, in fact, made substantial efforts. Further possibilities were discussed in some detail in an earlier report to the Commission on Transnational Corporations, entitled "Foreign direct investment in Africa and strategies to encourage transnational corporations to respond positively to the improved investment climate" (E/C.10/1990/8), submitted to the Commission at its sixteenth session in 1990. Nevertheless, it is perhaps worthwhile to emphasize a few policy actions that may deserve special attention:

(a) Although several countries in Africa have an investment climate, including political, economic and social conditions, that is good, a number of potential investors lump them together with other countries and see them as part of a continent that is, in its entirety, considered to be not attractive for TNCs, especially if compared with competing locations in the world-wide FDI market. As one recent study put it, "for most multinational corporations, Africa is the forgotten continent". ^{62/} Yet, the same study gives a number of examples of long-standing, successful operations of manufacturing TNCs in Africa, involving multicountry plants and marketing operations. Efforts need therefore to be made to change the image of Africa and encourage more differentiated views. This involves various promotional and pro-active measures, such as targeting individual companies that could fulfil a niche role in a particular economy or in specific industries. In a sense, this is a logical next step in the process of attracting FDI after many countries have improved their investment codes. The potential of such an approach is demonstrated by the success of, for instance, particular states within the United States, to target systematically investors from Japan during the past 10 years.

(b) Among the first to be targeted by Governments seeking an increase in FDI should be the TNCs already established in Africa. At the moment, they are frequently those that have benefited least from the new investment regimes.

/...

Table 13. The relative importance of foreign-direct-investment inflows to GDP: Africa, a/ Asia b/ and Latin America and the Caribbean, 1970, 1975, 1980 and 1991

(dollars per \$1,000 of GDP)

Year	Africa <u>a/</u>	Asia <u>b/</u>	Latin America and the Caribbean
1970	5.2	2.6	7.4
1975	3.2	3.9	10.7
1980	1.0	3.7	8.3
1991	7.4	12.6	13.2

Source: UNCTAD Programme on Transnational Corporations, based on foreign-direct-investment database; and United Nations, National Accounts Statistics: Analysis of Main Aggregates (New York, United Nations, various years).

a/ Excluding South Africa.

b/ East and South-East Asia only (excluding Japan).

They are, however, the natural candidates to play a key role as a source of FDI for the continent, including through re-invested profits, and to provide a positive demonstration effect for potential new investors. 63/ In this respect, consideration should also be given to the provision of various after-investment services to established TNCs (analogous to the marketing concept of "after-sales service"), 64/ many of which are aimed at reducing the "hassle costs of doing business". 65/

(c) Problems that have arisen in the application of new investment codes have sometimes offset the potential value of the revised regimes. A key feature of the new regimes in several countries has been the introduction of one-stop shops where all bureaucratic and fiscal aspects of a project are meant to be resolved. In a number of cases, this central point has become simply an additional stop on a route that still involves a range of government departments, several of which may have different perceptions of a given project. Further, many investors develop an impression that the arrangements for their investments are likely to be less than transparent and that some form of extra effort is required if projects are to be finalized. Where such efforts can be construed as illicit payments, this can lead to other complications. In the United States, for example, illicit payments are illegal under the Foreign

Corrupt Practices Act, passed in 1978, and companies can be fined up to \$2 million for transgressing the Act. Impressions of this sort have partly been responsible for the development of a negative attitude by United States investors to some countries in Africa.

(d) An additional and separate constraint relates to the need of many TNCs to match their funds with local finance. The restricted nature of capital markets in most African countries makes it difficult to raise long-term finance locally, and even more so to raise equity finance. Although a number of venture-capital funds have been set up in Africa in the past five years, they are geared primarily to the needs of locally owned small-to-medium sized businesses. There is scope for the introduction of local investment trusts, shares in which could be taken by existing local financial intermediaries such as insurance companies, pension funds and even local grass-roots savings groups that frequently find it difficult to re-invest their deposits. 66/ Such trusts could act as co-investors with TNCs in new projects or the expansion of existing ones. Their character would be different from that of development finance companies owned by Governments, many of which were established in the 1960s and which have not been too successful in mobilizing local corporate or individual savings.

88. As to the future prospects of FDI in Africa, the role of South Africa as a source of FDI for the region has been much discussed in the past three years. Trade between South Africa and the remainder of Africa had grown to a total of \$1.7 billion by 1990. 67/ In many cases, the trade link could be complemented by an investment link, and a variety of efforts in this direction are being pursued or are under discussion. There have also been several acquisitions by South African banks of banking networks elsewhere in southern and eastern Africa. Given the country's level of development and long isolation, the potential for outward FDI from the post-apartheid South Africa is considerable. On the other hand, however, the reconstruction of the economy after a period of sanctions and social upheaval will absorb considerable amounts of domestic capital (see also E/C.10/1994/11).

89. The industries that can be expected to benefit from new FDI inflows in the next decade are likely to be similar to those that have proved attractive in the 1980s. These are principally in the minerals sector (including gold) and oil since production costs in Africa remain competitive. Some investment in niche tourism - such as tourism based on ecologically attractive locations - can also be expected, but will perhaps be insufficient to offset disinvestment in tourism in countries in which political problems have created a negative investment climate. A more hopeful situation exists in some agricultural sub-sectors, such as horticulture, where export markets account for nearly all of output, and where investors can retain a high proportion of export revenues.

90. A key consideration for TNCs as they reassess Africa as a FDI location is the extent to which profits can be earned that are comparable to those in the rest of the world, and the extent to which they can be earned with no greater degree of hazard or difficulty than elsewhere. As noted in section III, the costs of production in Africa had become less competitive by the 1980s in many respects. The widespread currency devaluations that have occurred in Africa since the mid-1980s as part of structural adjustment programmes have

considerably reduced the cost of labour and other locally sourced inputs, to make them again more competitive with those in low-income Asia. Although productivity levels in Africa remain below those in south Asia for the manufacturing sector, the improvement in relative costs is likely to increase Africa's attraction as a location for foreign direct investment.

Notes

1/ However, the significance of Nigeria's liberalization was considerably offset by the fact that it did not apply to companies registered under the old decrees which continued to have their share in equity restricted to 40 per cent.

2/ In case of large projects in the natural resources sector, foreign currency retention is now a common feature of most contracts recently negotiated in the region.

3/ The problem has been that in some cases (including Nigeria and Zambia) the operation of the free market in foreign exchange has often been suspended; in addition, delays in the mechanics of remittance have occurred, thereby reducing investor confidence in the durability of the scheme.

4/ See, e.g., the Investment Code 1984 of Côte d'Ivoire, the Foreign Investment Protection Act of Kenya, the Association Law of 1988 of Liberia, the Code of Investment of 1981 of Senegal and the Investment Code of 1991 of Uganda.

5/ The relevant legislation regarding the zones includes the Export Processing Zones Act No. 51 of 1970, the Development Incentives Act No. 50 of 1974 and the Export Service Zones Act No. 8 of 1981.

6/ See UNCTC, The Determinants of Foreign Direct Investment: A Survey of Evidence (New York, United Nations, 1992), Sales No. E.92.II.A.2.

7/ See Investment Code, 1992, Investment Code, 1987, The Companies Act, 1986, Investment Act, 1991, respectively, for those countries.

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31/ F. Sader, "Privatization and foreign investment in the developing world, 1988-92" (World Bank, Washington, D.C., 1993), Working Paper 1202, p. 22.

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32/ World Bank, World Debt Tables 1993-1994 (Washington, D.C., World Bank, 1993), p. 114; see also UNCTAD Programme on Transnational Corporations, "Foreign direct investment to the least developed countries and other developing countries outside Africa: report by the UNCTAD secretariat", E/C.10/1994/6.

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51/ A full judgement about the impact of import-substituting FDI on the balance of payments would only be possible if a counter-factual situation could be constructed.

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64/ See Alvin G. Wint, "Promoting transnational investment: organising to service approved investors", Transnational Corporations, 2 (February, 1993), p. 71-90.

65/ J. H. Dunning, "The global economies, domestic governance, strategies and transnational corporations: interactions and policy implications", Transnational Corporations, 1 (December 1993), p. 27.

66/ Although one private bank in Cameroon has developed such an instrument, it remains a rare example.

67/ Figures released by the Government of South Africa in 1991; they are likely to be an understatement.

Annex table 1. Inflows of foreign direct investment, by host country, various measures, 1981-1985, 1986-1990 and 1991-1992

(Annual averages, millions of dollars and per cent)

Country	Inflows, millions of dollars			Share in FDI inflows to GDP, per cent		
	1981-1985	1986-1990	1991-1992	1981-1985	1986-1990	1991-1992
Algeria	-7.8	6.9	11.8	-0.02	0.01	0.03
Angola	122.9	69.8	476.3	..	1.3	7.9 a/
Benin	0.4	0.5	10.1	0.03	0.03	0.5
Botswana	49.8	60.8	53.0	4.4	3.5	1.4
Burkina Faso	1.3	1.2	0.5 a/	0.1	0.1	0.02 a/
Burundi	3.4	1.2	0.6	0.3	0.1	0.05
Cameroon	159.0	7.2	-5.1	2.0	0.05	-0.04
Cape Verde	-	0.8	0.2	-	0.4	0.1
Central African Republic	5.5	3.7	-3.9	0.8	0.4	-0.3
Chad	0.1	-0.1	-1.7 a/	0.01	-	-0.1 a/
Comoros	-	3.0	1.8	..	1.5	0.7
Congo	33.9	16.9	5.5 a/	1.6	0.8	0.2 a/
Côte d'Ivoire	33.7	59.7	47.6	0.5	0.6	0.5
Djibouti	0.1	0.3	-0.1 a/	..	0.1	-0.02 a/
Egypt	688.7	1 067.8	356.0	2.4	3.1	0.8 a/
Equatorial Guinea	1.1	3.5	31.2	..	2.9	22.5
Ethiopia	1.0	2.0	3.4	0.02	0.03	0.05
Gabon	64.3	75.1	-68.9	1.8	2.0	-1.2
Gambia	-0.02	3.5	8.2	-0.1	1.2	2.4

Country	Inflows, millions of dollars			Share in FDI inflows to GDP, per cent		
	1981-1985	1986-1990	1991-1992	1981-1985	1986-1990	1991-1992
Ghana	8.5	8.8	21.2	0.2	0.2	0.3 a/
Guinea	0.2	4.2	0.5 a/	..	0.2	0.02
Guinea-Bissau	0.7	0.8	0.3 a/	0.5	0.5	0.1 a/
Kenya	15.9	39.0	12.6	0.2	0.5	0.2
Lesotho	3.9	11.9	5.1	1.2	2.5	0.8
Liberia	20.8	248.9	8.2 a/	1.9	..	..
Libya	-272.1	21.3	155.0	-0.9	..	..
Madagascar	2.3	11.1	17.4	0.1	0.4	0.6
Malawi	7.6	9.9	3.1 a/	0.6	0.8	0.1 a/
Mali	4.3	3.8	-2.1	0.4	0.1	-0.1
Mauritania	8.9	2.3	1.0	1.2	0.2	0.1
Mauritius	3.4	24.9	16.8	0.3	1.2	0.7 a/
Morocco	50.3	95.4	371.7	0.3	0.4	1.3
Mozambique	0.4	4.9	24.0	0.02	0.3	2.1
Namibia	-	7.4	80.6	-	0.3	3.5
Niger	3.1	11.4	0.9 a/	0.13	0.5	0.04 a/
Nigeria	400.2	723.3	804.5	0.5	2.3	2.5
Rwanda	15.9	15.9	3.4	1.07	0.7	0.2
Senegal	8.2	3.0	33.5 a/	0.3	0.05	0.4 a/
Seychelles	10.1	21.4	21.5	6.6	7.5	5.6
Sierra Leone	-2.2	-13.8	33.5	-0.1	0.3	4.7
Somalia	-4.9	-2.3	1.4	-1.0	-0.1	..
Sudan	5.8	2.7	-0.5 a/	0.1	0.02	-0.01 a/

Country	Inflows, millions of dollars			Share in FDI inflows to GDP, per cent		
	1981-1985	1986-1990	1991-1992	1981-1985	1986-1990	1991-1992
Swaziland	6.7	48.1	45.3	1.4	7.5	4.7
Togo	6.9	3.8	6.7 a/	0.8	0.3	0.4 a/
Tunisia	207.7	73.9	252.2	2.5	0.7	1.7
Uganda	-0.4	0.6	2.0 a/	-0.01	0.03	0.1 a/
United Republic of Tanzania	8.7	-0.2	0.9 a/	0.1	0.01	0.03
Zaire	-17.7	-14.3	14.5 a/	-0.13	-0.2	..
Zambia	19.1	112.5	42.1	0.7	3.4	0.9 a/
Zimbabwe	0.2	-12.7	3.4	0.01	-0.2	0.1

Source: UNCTAD Programme on Transnational Corporations, based on IMF tapes, retrieved in December 1993; and UNCTAD, Programme on Transnational Corporations, FDI database.

a/ 1991 only.

Annex table 2. Share of foreign direct investment in gross domestic investment, by country, 1981-1985, 1986-1990 and 1991-1992

(Per cent)

Country	1981-1985	1986-1990	1991-1992
Algeria	-0.05	0.04 a/	...
Benin	0.13	0.22	4.76 b/
Botswana	13.35	23.17 c/	...
Burkina Faso	0.43	...	...
Burundi	2.04	2.68	0.28
Cameroon	7.77	0.21	...
Congo	4.12	5.13 c/	...
Côte d'Ivoire	2.67	4.5 d/	...
Egypt	7.90	10.34	4.87
Ethiopia	0.13	0.27	0.53
Gabon	...	6.08	...
Ghana	4.76	1.35	...
Kenya	1.09	2.03	1.3 b/
Liberia	9.47	6.65	...
Malawi	4.46	4.35	0.71 b/
Mali	2.36	0.84	0.83 b/
Mauritius	1.46	4.11	2.52 b/
Morocco	1.34	1.77	5.05 b/
Mozambique	0.04	1.15	3.97 b/
Niger	0.45	5.06	...
Nigeria	3.49	25.61	18.59
Rwanda	6.99	4.94	1.97
Senegal	2.45	0.46 c/	...
Seychelles	26.06	31.33	...
Sierra Leone	-2.51	-0.01	36.15 b/
Sudan	...	0.13	-0.05 b/
Swaziland	4.53	...	...

/...

Country	1981-1985	1986-1990	1991-1992
Togo	2.22	2.22	...
Tunisia	8.21	3.29	6.43
United Republic of Tanzania	0.69	-0.02	0.08
Zaire	-2.07	-1.47	...
Zambia	5.27	19.45	...
Zimbabwe	0.01	-1.09	...

Source: UNCTAD Programme on Transnational Corporations, based on the Programme's FDI database.

a/ 1986-1988.

b/ 1991.

c/ 1986-1990.

d/ 1986-1987.

Annex table 3. External financial flows related to foreign direct investment, by country, 1981-1985, 1986-1990, 1991-1992

(Annual averages, millions of dollars)

Country	1981-1985	1986-1990	1991-1992
Africa			
A. FDI inflows	1 679.8	2 851.8	2 863.9
B. Profit remittances	3 157.2	2 140.5	1 210.9
C. Net transfer	-1 477.4	711.3	1 653.0
Oil exporting countries			
A. FDI inflows	1 396.7	2 062.4	1 984.1
B. Profit remittances	2 572.3	1 440.3	842.5
C. Net transfer	-1 175.6	622.1	1 141.6
Algeria			
A. FDI inflows	-7.8	8.9	11.8
B. Profit remittances	506.6	284.6	...
C. Net transfer	-514.4	-277.7	...
Cameroon			
A. FDI inflows	158.8	7.2	-5.6
B. Profit remittances	84.9	81.3	...
C. Net transfer	73.9	-74.1	...
Congo			
A. FDI inflows	34.0	17.0	5.5
B. Profit remittances	24.5	46.0	...
C. Net transfer	9.5	-29.0	...
Egypt			
A. FDI inflows	688.7	1 067.9	356.0
B. Profit remittances	10.4	21.8	7.0
C. Net transfer	678.3	1 046.1	346.0
Gabon			
A. FDI inflows	64.3	75.1	-68.9
B. Profit remittances	101.1	24.3	95.7
C. Net transfer	-36.8	50.8	-164.6

Country	1981-1985	1986-1990	1991-1992
Libya			
A. FDI inflows	-272.0	21.3	155.0
B. Profit remittances	1 135.6	403.0	...
C. Net transfer	-1 407.6	-381.7	...
Nigeria			
A. FDI inflows	400.2	723.3	804.5
B. Profit remittances	542.4	308.0	186.0
C. Net transfer	-142.2	415.3	618.5
Tunisia			
A. FDI inflows	207.7	73.9	252.9
B. Profit remittances	145.2	118.4	267.0
C. Net transfer	62.5	44.5	-14.1
Other Africa			
A. FDI inflows	283.0	789.4	879.8
B. Profit remittances	584.9	700.2	368.4
C. Net transfer	-301.9	89.2	511.4
Benin			
A. FDI inflows	0.4	0.5	10.1
B. Profit remittances	1.6	...	...
C. Net transfer	-1.2	...	...
Botswana			
A. FDI inflows	49.8	60.9	53.0
B. Profit remittances	137.2	248.2	...
C. Net transfer	-87.4	-187.3	...
Burkina Faso			
A. FDI inflows	1.3	1.2	0.5
B. Profit remittances	3.5	...	...
C. Net transfer	-2.2	...	...
Burundi			
A. FDI inflows	3.4	1.2	0.6
B. Profit remittances	...	3.4	2.1
C. Net transfer	...	-2.2	-1.5

Country	1981-1985	1986-1990	1991-1992
Cape Verde			
A. FDI inflows	0.0	0.8	0.2
B. Profit remittances	55.6	35.8	...
C. Net transfer	...	-35.0	...
Ghana			
A. FDI inflows	8.5	8.8	21.3
B. Profit remittances	1.7	5.8	...
C. Net transfer	6.8	3.0	...
Gambia			
A. FDI inflows	0.0	3.5	8.2
B. Profit remittances	3.1	...	...
C. Net transfer	3.1	...	...
Kenya			
A. FDI inflows	15.9	39.0	12.6
B. Profit remittances	71.5	71.4	...
C. Net transfer	-55.6	-32.4	...
Lesotho			
A. FDI inflows	39.0	11.9	5.1
B. Profit remittances	5.2	9.8	150.5
C. Net transfer	33.8	2.1	-145.4
Liberia			
A. FDI inflows	20.0	248.9	8.2
B. Profit remittances	0.5	...	...
C. Net transfer	19.5	...	...
Madagascar			
A. FDI inflows	2.3	11.1	17.4
B. Profit remittances	2.8	1.0	2.0
C. Net transfer	0.5	10.1	15.4
Malawi			
A. FDI inflows	7.6	9.9	3.1
B. Profit remittances	10.5	6.1	...
C. Net transfer	2.9	3.8	...

Country	1981-1985	1986-1990	1991-1992
Mauritania			
A. FDI inflows	8.9	2.3	1
B. Profit remittances	27.0	32.3	...
C. Net transfer	-18.1	-30.0	...
Mauritius			
A. FDI inflows	3.4	24.9	16.9
B. Profit remittances	1.5	13.6	20.6
C. Net transfer	1.9	11.3	-3.7
Morocco			
A. FDI inflows	50.3	95.4	371.8
B. Profit remittances	50.3	41.4	55.0
C. Net transfer	30.1	54.0	316.0
Niger			
A. FDI inflows	3.1	11.4	0.9
B. Profit remittances	-8.8	...	...
C. Net transfer	11.9	...	...
Rwanda			
A. FDI inflows	15.9	15.9	3.4
B. Profit remittances	1.7	1.7	1.8
C. Net transfer	14.2	14.2	1.6
Senegal			
A. FDI inflows	8.2	3.0	33.5
B. Profit remittances	21.0	23.1	35.4
C. Net transfer	12.3	-20.1	-1.9
Seychelles			
A. FDI inflows	10.1	21.4	21.5
B. Profit remittances	2.8	5.0	4.9
C. Net transfer	7.3	16.4	16.6
Sierra Leone			
A. FDI inflows	-2.2	-13.8	33.5
B. Profit remittances	10.3	7.3	...
C. Net transfer	-12.5	-21.1	...

Country	1981-1985	1986-1990	1991-1992
Swaziland			
A. FDI inflows	6.7	48.1	45.3
B. Profit remittances	10.2	49.4	66.0
C. Net transfer	-3.5	-1.3	-20.7
Togo			
A. FDI inflows	6.9	3.8	6.7
B. Profit remittances	10.4	13.6	20.9
C. Net transfer	-3.5	-9.8	-14.2
Zaire			
A. FDI inflows	-17.7	-14.3	14.5
B. Profit remittances	108.2	59.2	...
C. Net transfer	-125.5	-73.5	...
Zambia			
A. FDI inflows	19.1	112.5	42.2
B. Profit remittances	18.2	18.0	...
C. Net transfer	-0.9	94.5	...
Zimbabwe			
A. FDI inflows	0.2	-12.7	3.4
B. Profit remittances	69.3	60.4	...
C. Net transfer	-69.1	-73.1	...

Source: UNCTAD Programme on Transnational Corporations, based on the Programme's FDI database.
